ACCOUNTS COMMISSION ✓

441st meeting of the Accounts Commission for Scotland

Thursday 7 December 2017, 10.15am
in the offices of Audit Scotland, 102 West Port, Edinburgh

Agenda

1. **Apologies for absence.**

2. **Declarations of interest.**

3. **Decisions on taking business in private:** The Commission will consider whether to take items 13 to 17 in private.

4. **Minutes of meeting of 9 November 2017.**

5. **Minutes of meeting of Performance Audit Committee of 23 November 2017.**

6. **Audit Scotland Board update:** The Commission will consider a verbal report by the Chair and Secretary to the Commission.

7. **Update report by the Secretary to the Accounts Commission:** The Commission will consider a report by the Secretary to the Commission.

8. **Update report by the Controller of Audit:** The Commission will consider a verbal report by the Controller of Audit.

9. **Work programme refresh:** The Commission will consider a report by the Director of Performance Audit and Best Value.

10. **Audit quality framework:** The Commission will consider a report by the Secretary to the Commission.

11. **Ethical advice to the Commission:** The Commission will consider a report by the Secretary to the Commission.

12. **Best Value Assurance Report: Orkney Islands Council:** The Commission will consider a report by the Controller of Audit.

The following items are proposed to be considered in private:

13. **Best Value Assurance Report: Orkney Islands Council:** The Commission will consider the action that it wishes to take.

14. **2017/18 audits - local government fees:** The Commission will consider a report by the Assistant Auditor General.

15. **Briefing: Health and social care integration:** The Commission will consider a briefing by the Director of Performance Audit and Best Value.

16. **Performance Audit: Early learning and childcare - draft report:** The Commission will consider a draft report by the Director of Performance Audit and Best Value.

17. **Commission business matters:** The Commission will discuss matters of interest.

* It is proposed that items 13 to 17 be considered in private because:

- Item 13 requires the Commission to consider actions in relation to a report by the Controller of Audit. The Commission is then obliged by statute to inform the council in question of its decision, which the Commission does before making the decision public.

- Item 14 proposes a report from the Assistant Auditor General on the local government fees, in relation to which the Commission may wish to discuss confidential audit matters with the author.

- Item 15 is a briefing paper on which the Commission may wish to discuss confidential audit matters with the author.

- Item 16 proposes a draft audit report which the Commission is to consider in private before publishing.

- Item 17 may be required if there are any confidential matters that require to be discussed outwith the public domain. The Chair will inform the meeting in public at the start of the meeting if this item is required and what it covers.

The following papers are enclosed for this meeting:

Agenda Item	Paper number
Agenda Item 4: Minutes of meeting of 9 November 2017	AC.2017.9.1
Agenda Item 5: Minutes of meeting of Performance Audit Committee of 23 November 2017	AC.2017.9.2
Agenda Item 6: Report by Secretary to the Commission	AC.2017.9.3
Agenda Item 7: Report by Secretary to the Commission	AC.2017.9.4
Agenda Item 9: Report by Director of Performance Audit and Best Value	AC.2017.9.5
Agenda Item 10: Report by Secretary to the Commission	AC.2017.9.6
Agenda Item 11: Report by Secretary to the Commission	AC.2017.9.7
Agenda Item 12: Report by Controller of Audit	AC.2017.9.8
Agenda Item 14: Report by Assistant Auditor General	AC.2017.9.9
Agenda Item 15: Report by Director of Performance Audit and Best Value	AC.2017.9.10
Agenda Item 16: Report by Director of Performance Audit and Best Value	AC.2017.9.11

MEETING: 7 DECEMBER 2017

MINUTES OF PREVIOUS MEETING

Minutes of the 440th meeting of the Accounts Commission held in the offices of Audit Scotland at 102 West Port, Edinburgh, on Thursday 9 November 2017, at 10.15am

PRESENT: Graham Sharp (Chair)
                  Alan Campbell
                  Sandy Cumming
                  Sophie Flemig
                  Sheila Gunn
                  Ronnie Hinds
                  Tim McKay
                  Christine May
                  Stephen Moore
                  Pauline Weetman
                  Geraldine Wooley

IN ATTENDANCE: Paul Reilly, Secretary to the Commission
                  Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)
                  Tim Bridle, Manager, Local Government, Audit Strategy [Item 13]
                  Peter Lindsay, Senior Audit Manager, Audit Services Group (ASG) [Items 9 and 11]
                  Mark McCabe, Senior Manager, PABV [Items 8, 9, 11 and 13]
                  Martin McLauchlan, Audit Manager, PABV [Items 10 and 12]
                  Keith Macpherson, Head - Government and Public Sector Audit, Ernst and Young [Items 10 and 12]
                  Tricia Meldrum, Senior Manager, PABV [Items 10 and 12]
                  Fiona Mitchell-Knight, Assistant Director, ASG [Items 9 and 11]
                  Ronnie Nicol, Assistant Director, PABV [Items 8 and 13]

Item No   Subject

1.   Apologies for absence
2.   Declarations of interest
3.   Decisions on taking business in private
4.   Minutes of meeting of 12 October 2017
5.   Audit Scotland Board Update
6.   Update report by the Secretary to the Accounts Commission
7.   Update report by the Controller of Audit
8.   Shared Risk Assessment 2018/19
9.   Audit of Best Value: follow-up - East Dunbartonshire Council
10.   Best Value Assurance Report: West Lothian Council
11.   Audit of Best Value: follow-up - East Dunbartonshire Council
12.   Best Value Assurance Report: West Lothian Council
13.   Local government financial overview: draft report
14.   Commission business matters

1. Apologies for absence

   It was noted that no apologies for absence had been received.

2. Declarations of interest

   The following declarations of interest were made:

   - Sandy Cumming, in items 10 and 12, as Chair of Scotland's Rural College (SRUC), in relation to references to SRUC.

   - Sheila Gunn, in item 7, as Vice-Chair of the Wheatley Group, in relation to references to housing matters.

   - Christine May, in items 9 to 13, as former Chair of Fife Cultural Trust, in relation to references to arm's-length external organisations.

   - Graham Sharp, in item 9, as a resident of East Dunbartonshire.

3. Decisions on taking business in private

   It was agreed that the following items be taken in private:

   - Item 11 requires the Commission to consider actions in relation to a report by the Controller of Audit. The Commission is then obliged by statute to inform the council in question of its decision, which the Commission does before making the decision public.

   - Item 12 requires the Commission to consider actions in relation to a report by the Controller of Audit. The Commission is then obliged by statute to inform the council in question of its decision, which the Commission does before making the decision public.

   - Item 13 proposes a draft audit report which the Commission is to consider in private before publishing.

   No business was notified by members for item 14 and thus the Chair advised that the item would not require discussion.

4. Minutes of meeting of 12 October 2017

   The Commission approved as a correct record the minutes of the meeting of 12 October.

   Arising therefrom, the Commission:

   - In relation to paragraph 10, noted advice from the Director of PABV that he would brief the Commission on matters around the role of local authorities in enterprise agencies.

   - In relation to paragraph 14, noted advice from the Secretary that the Commission had published the Best Value Assurance Report on East Renfrewshire Council on 7 November.

   - In relation to paragraph 16, noted advice from the Secretary that a report on ethical advice to the Commission would be considered by the Commission at its next meeting.

5.   Audit Scotland Board Update

The Commission considered a report by the Secretary providing an update on the business of the Audit Scotland Board, including the minute of the meeting of the Board of 23 August 2017.

Arising therefrom, in relation to paragraph 8 of the Board minute and in response to a query from Sophie Flemig, the Commission agreed that more information be provided on Audit Scotland's collaboration with Young Scot.

Action: Director of PABV

Thereafter, the Commission noted the report.

6.   Update report by the Secretary to the Accounts Commission

The Commission considered a report by the Secretary to the Commission providing an update on significant recent activity relating to local government and issues of relevance or interest across the wider public sector.

During discussion, the Commission:

- In relation to paragraph 46, noted advice from the Director of PABV, in response to a query from Christine May, that he would provide further information on the proposed meeting of the National Contingency Planning Group in relation to elderly care provision.

Action: Director of PABV

- Further in relation to paragraph 46, in response to a query from Sophie Flemig, the Commission noted that further thought would be given to featuring matters on older people's care as part of the committee day speakers' programme.

Action: Secretary

- Noted advice from the Director, in response to a query from Christine May, that he would keep the Commission apprised appropriately on the work of the Scottish Futures Trust, including the matter featuring in the forthcoming performance audit on innovative financing and City Region Deals.

- In relation to paragraph 47, noted advice from the Director, in response to a query from Stephen Moore, that he would continue to monitor workforce issues in relation to Brexit.

Actions: Director of PABV

Following discussion, the Commission agreed to note the report.

7.   Update report by the Controller of Audit

The Controller of Audit provided a verbal update on his recent activity including meetings and discussions with stakeholders.

During discussion, the Commission agreed that the Director consider how to develop analysis of matters around local government workforce capability and capacity.

Action: Director of PABV

Following discussion, the Commission noted the update.

8.   Shared risk assessment 2018/19

The Commission considered a report by Director of PABV proposing the approach

to, and timetable for, the shared risk assessment (SRA) process for scrutiny work in 2018/19.

During discussion, the Commission agreed:

- That the Director provide details of local area network leads.
- To endorse the approach to, and timetable for, the 2018/19 shared risk assessment process.

Action: Director of PABV

9. Audit of Best Value: follow-up - East Dunbartonshire Council

The Commission considered a report by the Secretary to the Commission presenting the Controller of Audit's report of the Best Value follow-up report on East Dunbartonshire Council and seeking direction on how to proceed.

Following questions to the Controller of Audit, the Commission agreed to consider in private how to proceed.

10. Best Value Assurance Report: West Lothian Council

The Commission considered a report by the Secretary to the Commission presenting the Controller of Audit's Best Value Assurance Report on West Lothian Council and seeking direction on how to proceed.

Following questions to the Controller of Audit, the Commission agreed to consider in private how to proceed.

11. Audit of Best Value: follow-up - East Dunbartonshire Council [*in private*]

The Commission discussed how to proceed in relation to the statutory report by the Controller of Audit on the follow-up audit of East Dunbartonshire Council.

Following discussion, the Commission agreed to make findings, to be published on 16 November 2017.

Actions: Secretary and Controller of Audit

12. Best Value Assurance Report: West Lothian Council [*in private*]

The Commission discussed how to proceed in relation to the statutory report by the Controller of Audit on the Best Value Assurance Report on West Lothian Council.

Following discussion, the Commission agreed to make findings, to be published on 23 November 2017.

Actions: Secretary and Controller of Audit

13. Local government financial overview: draft report [in private]

The Commission considered a report by the Director of PABV proposing the draft local government financial overview 2017.

During discussion, the Commission agreed to:

- Approve the draft report, subject to the audit team considering points raised in discussion in conjunction with the sponsors of the report, Ronnie Hinds and Christine May.
- Approve the publication and promotion arrangements for the report.

Actions: Director of PABV

14. Commission business matters

    The Chair, having advised that there was no business for this item, closed the meeting.

MEETING: 7 DECEMBER 2017

MINUTES OF MEETING OF PERFORMANCE AUDIT COMMITTEE OF 23 NOVEMBER 2017

Minutes of meeting of the Performance Audit Committee of the Accounts Commission held in the offices of held in the offices of 102 West Port, Edinburgh, on Thursday 23 November 2017, at 1.00pm.

PRESENT:	Ronnie Hinds (Chair)
	Christine May
	Alan Campbell
	Sandy Cumming
	Stephen Moore
OTHER COMMISSION MEMBERS PRESENT:	Geraldine Wooley [Item 4]
IN ATTENDANCE:	Paul Reilly, Secretary to the Commission
	Fraser McKinlay, Director of Performance Audit and Best Value (PABV)
	Elaine Boyd, Assistant Director, Appointments and Assurance [Item 8]
	Carol Calder, Senior Manager, PABV [Item 5]
	Antony Clark, Assistant Director, PABV [Item 4
	Gemma Diamond, Senior Manager, PABV [Item 6]
	Russell Frith, Assistant Auditor General [Item 8]
	Graeme Greenhill, Senior Manager, PABV[Item 6]
	John Gilchrist, Manager, Appointments and Assurance [Item 8]
	Ronnie Nicol, Assistant Director, PABV [Item 5]
	Mark Roberts, Senior Manager, PABV [Item 7]
	Owen Smith, Senior Manager, Appointments and Assurance [Item 8]
	Sally Thompson, Audit Manager, PABV [Item 5]
	Catherine Young, Audit Manager, PABV [Item 7]
	Rikki Young, Business Manager, PABV [Item 4

<u>Item no.</u>   <u>Subject</u>

1.	Apologies for absence
2.	Declarations of interest
3.	Minutes of meeting of 28 September 2017
4.	Work programme update
5.	Local government overview: emerging messages
6.	Policy briefing: Public finances, investment, economy
7.	Community justice: options for a performance audit
8.	Audit quality: 2017/18 first report
9.	Any other business

1. Apologies for absence

    It was noted that apologies had been received from Sophie Flemig and Graham Sharp.

2. Declarations of interest

    The following declarations of interest were made:

    - Alan Campbell, in item 6, since he has an association with a shale gas company, in relation to references to unconventional oil and gas.

    - Sandy Cumming, in item 4, since a close family member is employed by the Scottish Government in relation to early learning and childcare policy, in relation to references to the ongoing performance audit in this regard.

    - Christine May, in item 5, as former Chair of Fife Cultural Trust, in relation to references to arm's length external organisations.

3. Minutes of meeting of 28 September 2017

    The minutes of the meeting of 28 September 2017 were approved as a correct record.

4. Work programme update

    The Committee considered a report by the Director of PABV providing an update on performance audits, impact reports and *How councils work* reports on which the Committee has an oversight and quality assurance role on behalf of the Commission.

    During discussion, the Committee agreed:

    - That future reports include information on original and planned publication dates.

    - In relation to a query from Sandy Cumming, to note advice from the Secretary that the agreed approach to sponsors of impact reports is that sponsors of original reports are assumed to fulfil this role.

    - To note advice from Alan Campbell that he and Geraldine Wooley were, as sponsors, anticipating input into and approval of the promotional video and associated online information hub in relation to the early learning and childcare performance audit.

    Action: Director of PABV

    - To note advice from Christine May that the Equalities Sub-Group, at its meeting on 23 November, had noted the potential for targeting messages from performance audit reports at individual groups, a recommendation on which would be made by the Group when it reports to the Commission at its January 2018 meeting.

    Thereafter, the Committee noted the report.

5. Local government overview: emerging messages

    The Committee considered a report by the Director of PABV proposing the emerging messages for the 2017/18 local government overview report.

    During discussion, the Committee agreed:

- To endorse the emerging messages, subject to a small number of revisions and other points to be addressed by the report team in conjunction with the report sponsors, Ronnie Hinds and Christine May.

- That a draft report be taken to the Commission meeting in March, prior to publication in April.

- To endorse proposals for promoting the publication of the report, including:

  o The report be used as the basis for a round of engagement events with council leaders and chief executives in spring 2018, as previously agreed by the Commission

  o Reflecting the view of the Equalities Sub-Group, articulated by Christine May, that the messages of the report be targeted at individual groups.

  o Targeting the report's messages to newly elected members.

  o Considering any links between the report and the CIPFA/Institute for Government Performance Tracker publications.

  o Targeting professional conferences.

Actions: Director of PABV & Secretary

6.   Policy briefing: Public finances, investment, economy

The Committee considered a briefing on the update on the work of the policy cluster for public finances, investment and economy. The presentation was delivered by Gemma Diamond and Graeme Greenhill.

During discussion, the Committee agreed:

- That the following specific areas of interest be considered by the policy cluster for dedicated briefings or outputs in due course:

  o performance of the Scottish economy

  o demographics.

- That diversity and equalities issues be covered in all cluster policy briefings.

- To note advice from the Director, that in relation to demographics, that:

  o this would be considered in the proposed cluster review on enterprise and skills

  o this would also be considered as part of the digital audit strategy

  o he was considering how this be recognised as a cross-cutting issue affecting all policy clusters, alongside other such cross-cutting issues.

- That the issue of transparency of funding be considered in the scoping of the forthcoming performance audit on City Region Deals.

- That the audit team for the local government overview report consider the implications for the report of the What Works Scotland paper *Outcomes based approaches in public services reform*.

Actions: Director of PABV

7.   Community justice: options for a performance audit

The Committee considered a report by the Director of PABV presenting options for undertaking the proposed performance audit on community justice.

Following discussion, the Committee agreed to recommend to the Commission that a two-stage approach be taken to the audit, with an initial report publishing in early autumn 2018 and a second stage publishing in 2021/22, subject to considering the audit in the context of the wider work programme.

Action: Director of PABV

8.   Audit quality: 2017/18 first report

The Committee considered a report by the Assistant Director, Appointments and Assurance presenting the first Audit Quality report as part of the new Audit Quality Framework.

During discussion, the Committee agreed:

- That future versions of the report include more detail on the outcome of Financial Reporting Council audit quality inspection of audit service providers.

- To note advice from the Assistant Director that further discussion will take place with the Commission in relation to ongoing development of:

  o Quality assurance in relation to performance audits and auditing Best Value

  o Approaches to gauging stakeholder feedback.

Following discussion, the Committee agreed to endorse the Audit Quality First Report 2017/18.

9.   Any other business

The Chair having advised that there was no further business, the meeting was closed.

![Accounts Commission logo]

MEETING: 7 DECEMBER 2017

REPORT BY: SECRETARY TO THE COMMISSION

AUDIT SCOTLAND BOARD UPDATE

Purpose

1. This report provides an update on the business of the Audit Scotland Board.

Background

2. Audit Scotland is established in statute to "provide such assistance and support as the Auditor General and the Accounts Commission require in the exercise of their respective functions and, in particular, is to provide them, or ensure that they are provided, with the property, staff and services which they require for the exercise of those functions".[1]

3. Audit Scotland (i.e. its Board) consists of the Auditor General, the Chair of the Commission, and three other members.[2] These three members, including a Chair, are appointed by the Scottish Commission for Public Audit.[3]

4. As well as being a member of Audit Scotland's Board, the Commission Chair is also a member of its two committees, the Audit Committee and the Human Resources and Remuneration Committee.

5. In *Public Audit in Scotland*[4], the Commission, the Auditor General and Audit Scotland set out how they together deliver public audit in Scotland. They state that "by working together and each fulfilling our distinct roles, the Auditor General, the Accounts Commission and Audit Scotland will ensure a strong system of public audit works to support transparency and promote improvement in the performance of public bodies."

6. To this end, the Commission at its meetings considers for its interest the business of Audit Scotland Board.

Current Board business

7. This report provides the Commission with the latest available minute from a meeting of the Audit Scotland Board, in this case the meeting of 25 October 2017. It is attached in the Appendix.

8. The most recent meeting of the Board was on 29 November 2017, but the minute of this meeting is not yet publicly available as it is yet to be ratified by the board. This will be available after the next Board meeting on 31 January 2018 and considered by the Commission thereafter.

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[1] Public Finance and Accountability (Scotland) Act 2000, Section 10(3).
[2] Public Finance and Accountability (Scotland) Act 2000, Section 10(2).
[3] The Scottish Commission for Public Audit was established under Section 12 of the Public Finance and Accountability (Scotland) Act 2000 and is made up of 5 MSPs. Its main areas of responsibility are to (a) examine Audit Scotland's proposals for the use of resources and expenditure and report on them to the Parliament; (b) appoint an auditor to audit the accounts of Audit Scotland; (c) lay these accounts and auditor's report before the Parliament; and (d) appoint three of the five members of Audit Scotland's Board , including its Chair.
[4] *Public Audit in Scotland*, Accounts Commission, Auditor General and Audit Scotland, May 2015.

9. The Chair will, however, provide a verbal update on any relevant business for members' interest, and invites questions from members to this end.

Conclusion

10. The Commission is invited to consider this update for its interest and seek further information from the Chair as appropriate.

Paul Reilly
Secretary to the Commission
29 November 2017

Minutes

Wednesday 25 October 2017, 12.00pm

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

AUDIT SCOTLAND

Present:

I Leitch (Chair)
C Gardner
H Logan
R Hinds
R Griggs

Apologies:

None

In attendance:

D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
S Dennis, Corporate Finance Manager
E Boyd, Assistant Director, Appointments and Assurance Team
G Diamond, Senior Manager, Performance Audit and Best Value
D Robertson, Digital Services Manager
C Sweeney, Assistant Director, Performance Audit and Best Value
A Devlin, Corporate Governance Manager
J Webber, Senior Executive Assistant

1. Private meeting

A private meeting was held by the Chair and Board members, prior to the start of the Board meeting. There were no matters raised in addition to those items on the agenda, which had been previously circulated.

2. Welcome and apologies

Russel Griggs advised of his apologies for the latter part of the meeting and the Board noted he required to leave the meeting at 1.20pm.

3. Declarations of interest

There were no declarations of interest.

4. Chair's report

Ian Leitch provided a verbal update on meetings with Caroline Gardner and Diane McGiffen on business matters and advised of his attendance at the Public Body Chairs' networking event on Tuesday 24 October 2017.

The members welcomed the update.

5. Accountable Officer's report

Caroline Gardner invited the Board to note that following the Parliamentary recess the Public Audit and Post Legislative Scrutiny Committee had a busy agenda following up from previous audit reports and considering in due course the reports recently published on the Scottish Government, this week's Transport Scotland's ferry services report, the 2016/17 audit of NHS Tayside and the NHS in Scotland 2017. She also invited the Board to note that the recommendations made by Budget process review group had been accepted and would lead to a written agreement between Parliament and Government in 2018 to support the scale of implementation of the new financial powers.

Turning to other engagements, Caroline advised members of the meeting of the UK and Irish Auditors General on Friday 27 October in Belfast which followed the meeting Diane McGiffen attended of the Chief Operating Officers from the respective UK audit agencies on Friday 13 October.

Caroline invited the Board to note that 15 new graduate trainees had started work with Audit Scotland. She also invited members to note that the annual Best Companies survey had launched and results would be reported early in 2018.

The Board welcomed the update.

6. Accounts Commission report

Ronnie Hinds, the Acting Chair of the Accounts Commission, provided a verbal update on the meeting of the Accounts Commission on 12 October 2017 which had considered a Best Value report on East Renfrewshire Council.

Ronnie advised of his meeting with the Local Government Committee meeting on Tuesday 24 October on the findings in the Self Directed Support audit published earlier in the year and discussed the importance for the Commission of parliamentary engagement.

Ronnie invited the Board to note that an announcement was expected on the appointment of the new Accounts Commission Chair, effective from 1 November 2017.

The Board welcomed the update and the Board thanked Ronnie for his valuable contribution during his temporary role.

7. Review of minutes

Board meeting, 23 August 2017

The Board considered the minutes of the meeting on 23 August 2017, which had been previously circulated and subject to a minor correction in the Accountable Officer's report, agreed that these were an accurate record of the meeting.

8. Review of actions tracker

The Board noted the updates provided by the action tracker. Martin Walker provided a verbal update on item ASB49 on the work with Young Scot. Martin advised that an awareness raising Knowledge Café had taken place, involving Young Scot and the Children's Parliament, that a panel is being established to inform the scoping and reporting of audits and that Young Scot had been helpful in considering the scoping and methodology for the performance audit on children's and adolescents mental health which is due to publish in 2018.

Diane McGiffen also invited the Board to note that Josh Hardwick, our modern apprentice, was a finalist in this year's Young Scot Awards in recognition of his voluntary work.

9.   2018/19 Draft Budget

Stuart Dennis, Corporate Finance Manager, joined the meeting

Stuart Dennis, Corporate Finance Manager, introduced the 2018/19 Draft Budget report, a copy of which had been previously circulated.

Stuart invited the Board to approve the draft budget proposal which was based on the assumptions previously considered and approved by the Board at its meeting on 23 August 2017.

The Board noted that the budget continued to deliver real terms cost reductions on fees while supporting additional work on the new financial powers.

During discussion, Heather Logan sought and received clarification on the pay assumptions.   In considering other costs, she also noted the costs incurred for the National Fraud Initiative were static and queried the provision for corporation tax.

Heather sought clarification of the figures reported under efficiencies. Stuart advised that the full cost of the additional work on the new financial powers was £667k, but that £187k of that work was being absorbed into existing resourcing, therefore delivering an overall efficiency of £471k. The Chair requested further explanation be added to the budget proposal.

Russel Griggs queried whether the GDP deflator of 1.6% was consistent with the measure used by public bodies. Caroline confirmed this was the deflator used consistently for setting audit fees and in assessing provisions.

Ronnie Hinds noted the cost of the Accounts Commission is met by the SCPA and Russell Frith advised funding for this changed following the fees and funding review in 2016/17. Ronnie also queried whether the apportionment of costs for section 122 reports followed the same basis as that for Best Value reports. Russell advised that these costs were assumed as part of the cost of the Audit Scotland audit team and were therefore allocated across the sector. Ronnie advised that he would like to consider the allocation of costs further with the Accounts Commission.

Following discussion, the Board approved the budget proposal.

Action ASB61:   Stuart Dennis to include an explanatory note on efficiencies into the budget proposal prior to submission. (November 2017)

10.   2017/18 Spring Budget Revision

Stuart Dennis, Corporate Finance Manager, introduced the report 2017/18 Spring Budget Revision, a copy of which had been previously circulated.

Stuart invited the Board to approve Audit Scotland's 2017/18 Spring Budget Revision proposal which sought resources of £2,826k to cover additional pension charges.

Russel Griggs queried his understanding of the technical accounting requirement in deciding the pension discount. Stuart confirmed that the actuarial valuation of the scheme takes place at a fixed point in time.

Following discussion, the Board approved Audit Scotland's 2017/18 Spring Budget Revision proposal.

Stuart Dennis, Corporate Finance Manager, left the meeting

11. Quality Framework

Elaine Boyd, Assistant Director, Appointments and Assurance Team, joined the meeting

Elaine Boyd, Assistant Director, introduced the report Review of Audit Quality, which had been previously circulated.

Elaine invited the Board to consider and approve the updated Audit Quality Framework which had been finalised following extensive engagement with Management Team, the Audit Committee and the Accounts Commission.

The Chair advised he would prefer principal changes set out in a covering report or as revisions marked on the draft framework to highlight the changes made following consultation. Russell Frith advised members that the main changes had been to strengthen the statement on the fundamental importance of quality to the Auditor General and the Accounts Commission by inserting new paragraphs 2 and 31. He advised that the remaining changes were final drafting changes to simplify the overall structure of the document.

Russel Griggs queried the potential conflict of the Director of Audit Services being the Chair of the Audit Quality Committee and queried how the KPIs would drive improvement. Russell Frith advised that the Director of Audit Services as the senior audit professional would not be conflicted in chairing the committee focussed on enhancing Audit Scotland's audit quality and that all audit firms were required to make such arrangements under international standards in audit quality. He also advised that the KPIs had been designed to inform and drive improvement and reporting on quality and that these may evolve over time.

Ronnie Hinds summarised the Accounts Commission's appreciation of the good work undertaken to deliver the Audit Quality Framework and Russell thanked the Acting Chair of the Accounts Commission.

Heather also welcomed the updated report.

The Board approved the Audit Quality Framework.

Elaine Boyd, Assistant Director, Appointments and Assurance Team, left the meeting

12. Digital Audit Strategy

Gemma Diamond, Senior Manager, Performance Audit and Best Value and David Robertson, Digital Services Manager, joined the meeting.

Gemma Diamond, Senior Manager, Performance Audit and Best Value introduced the Digital Audit Strategy report, which had been previously circulated.

Gemma invited the Board to note that the strategy sets out Audit Scotland's ambition to achieve a step change in using digital audit processes and in auditing the public sector's use of digital to improve services.

Russel Griggs commented that security should be at the centre of any digital based strategy and Gemma advised that the Digital Audit Strategy and Audit Scotland's Digital Services Strategy had security at its core.

Russel Griggs left the meeting at 1.20pm.

Heather Logan asked for further explanation on how the resources to deliver the strategy had been determined. Gemma advised that the digital strategy group had collated information from a range of Scottish Government projects, the work of the local government's digital office and Best Value reports on how digital is supporting services as well as contact with the National Audit Office and engagement with and access to firms' data.

The Chair asked about social media and Gemma advised this is covered under the digital auditing section of the strategy.

Following discussion, the Board welcomed the report and discussion.

13. Digital Services Strategy 2018-2021

David Robertson, Digital Services Manager, joined the meeting.

David Robertson, Digital Services Manager introduced the Digital Services Strategy 2018-2021 report, which had been previously circulated.

David invited the Board to consider Audit Scotland's digital services strategy for 2018-21 which had been developed following a review of Audit Scotland's operating environment and engagement with colleagues to understand the demands of the changing digital environment and key business drivers for the next three years. David advised that the strategy focussed on key priorities: security, integration and ongoing in digital skills.

During detailed discussion, the Board sought assurance around any known points of failure, overall system protection and managing cloud based services. David advised of the ongoing management of points of failure, the cost of protection available as part of the Scottish Government procurement programme and assured members that proper arrangements where in place for using cloud based services.

Heather Logan requested that the forthcoming Business Continuity report for the Audit Committee captures the relevant IT elements.

Following discussion, the Board welcomed the strategy.

Gemma Diamond, Senior Manager, Performance Audit and Best Value and David Robertson, Digital Services Manager, left the meeting.

14. 2016/17 Carbon Scrutiny Annual Report

Claire Sweeney, Assistant Director, Performance Audit and Best Value, joined the meeting

Claire Sweeney, Assistant Director, Performance Audit and Best Value, introduced the 2016/17 Carbon Scrutiny Annual Report, which had been previously circulated.

Claire invited the Board to consider and approve the annual report and comment on future areas of focus.

The Board noted the continued reduction in carbon emissions across all three environmental areas of energy, waste and transport with focus on behaviour to achieve more next year around travel.

Following discussion, the Board approved the report for publication.

Claire Sweeney, Assistant Director, Performance Audit and Best Value, left the meeting

15. Corporate Governance Policies Update

Alex Devlin, Corporate Governance Manager, joined the meeting.

Alex Devlin, Corporate Governance Manager, introduced the Corporate Governance Policies Update, which had been previously circulated.

Alex invited members to consider and approve the amendments to the Financial Regulations required to reflect the need for Audit Scotland to have a bank account through the Government Banking Service, minor amendments to the Scheme of Delegation and Members' Code of Conduct and the Staff Code of Conduct and updated Standing Orders to set out the responsibilities of the Audit Committee with regard to audit quality.

Following discussion, the Board approved policies for a further year.

16. Arrangements for Board meetings

Alex Devlin, Corporate Governance Manager, introduced the Arrangements for board meetings report, which had previously been circulated.

The Chair invited members' views on the frequency of holding Board meetings in public. During discussion, the members reflected on their desire for business to be conducted openly and transparently and agreed that all Board meetings should be held in public from January 2018.

Following discussion, the Chair requested the Standing Orders be updated to reflect the changes which would take effect from January 2018.

Action ASB62:   Alex Devlin to update the Standing Orders to reflect the public meetings of the Board from January 2018. (January 2018)

Alex Devlin, Corporate Governance Manager, left the meeting.

17. 2018 proposed Board meeting dates

Diane McGiffen, Chief Operating Officer, introduced the 2018 proposed Board meeting dates report, which had previously been circulated.

Heather Logan asked whether the Audit Committee and Remco meetings scheduled in February and March respectively could be accommodated on the same day. Diane McGiffen advised that the planning schedule would be reviewed in advance of the Audit Committee meeting on 15 November 2017.

Action ASB63:   Diane McGiffen to consider the proposed meeting dates for 2018 and report to the Audit Committee. (November 2017)

18. Publication of reports

The Board approved the publication of reports with the exception of items 9, 10, 11 and 14 on the basis that these draft papers would be published in due course.

19. Any Other Business

There was no further business.

20. Review of meeting

The members agreed the meeting had been conducted effectively and the Chair thanked everyone for their contribution.

21. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting was scheduled for 29 November 2017 in the offices of Audit Scotland, 102 West Port, Edinburgh.

ACCOUNTS COMMISSION ✔

MEETING: 7 DECEMBER 2017

REPORT BY: SECRETARY TO THE COMMISSION

UPDATE REPORT

Introduction

1. The purpose of this report is to provide a regular update to the Accounts Commission on significant recent activity relating to local government, as well as issues of relevance or interest across the wider public sector.

2. The regular Controller of Audit report to the Accounts Commission which updates the Commission on his activity complements this report. The Commission's Financial Audit and Assurance Committee (FAAC) also receives a more detailed update on issues relating to local government. This report also complements the weekly briefing provided by Audit Scotland's Communication Team made available on the Commission members' extranet portal, which provides more detailed news coverage of a range of local government related issues.

3. The information featured is also available on the Accounts Commission members' portal. Hyperlinks are provided in the electronic version of this report for ease of reference.

Commission business

Publications

4. On 16 November, the Accounts Commission published East Dunbartonshire Council Best Value follow-up audit 2017. In its findings, the Commission stated that it is encouraged by the council's positive response to its findings from December 2016 and that it encourages the council to maintain momentum and continue to demonstrate effective leadership in taking improvements forward. The report prompted two articles in online specialist journals.

5. On 23 November, the Accounts Commission published Best Value Assurance Report: West Lothian Council. In its findings, the Commission noted that the council's services perform well and that outcomes for people are improving. It also highlighted the importance of elected members playing a more prominent and leading role in responding to substantial budget challenges. The report attracted substantial pieces in The Herald and The National as well as local papers.

6. On 28 November, the Accounts Commission published its annual financial overview of local government. It states that funding from the Scottish Government has reduced while costs and demands have increased, and more councils are using reserves to fund services. It highlighted councils are showing increasing signs of financial pressures and facing even tougher challenges ahead.

7. The overview report stimulated extensive national and local coverage both in broadcast and print media. The Cabinet Secretary for Finance and the Constitution, Derek Mackay welcomed the report on the radio. The Scottish Government stated that "we have treated local government very fairly despite the cuts to the Scottish Budget from the UK Government." It stated that for the 2017/18 financial settlement, including the increase in council tax and Health and Social Care Integration funding,

"local government have an extra £383 million, or 3.7 per cent, in support for services compared to 2016/17." COSLA stated the overview report as "a timely and accurate reflection of the precarious financial position Scotland's councils finds themselves in", underlining the need for fair funding from the Scottish Government.

8. The download statistics (with the increase from last month) for the reports published by the Commission over the last 12 months (as at 23 November) are shown below:

Report	Date	Report downloads	Report podcasts
East Dunbartonshire Council Best Value follow-up audit 2017	16 Nov 2017	126 (+126)	35 (+35)
East Renfrewshire Council Best Value Assurance Report	07 Nov 2017	519 (+519)	112 (+112)
Equal pay in Scottish councils	7 Sep 2017	825 (+172)	190 (+26)
Best Value Assurance Report: Renfrewshire Council	31 Aug 2017	698 (+209)	0
Self-directed support: 2017 progress report	24 Aug 2017	2426 (+433)	78
Best Value Assurance Report: Inverclyde Council	1 Jun 2017	1154 (+85)	276
Accounts Commission annual report 2016/17	25 May 2017	889 (+30)	
Accounts Commission strategy and annual action plan 2017-22	25 May 2017	658 (+37)	
Accounts Commission engagement strategy and engagement plan 2017/18	25 May 2017	317 (+28)	
Accounts Commission engagement plan 2016/17	25 May 2017	133 (+21)	
Accounts Commission action plan 2016/17	25 May 2017	135 (+20)	
Local government in Scotland: Performance and challenges 2017	7 Mar 2017	4992 (+95)	45
East Dunbartonshire Council: Best Value audit report	15 Dec 2016	989 (+36)	86
Falkirk Council: Best Value audit report	1 Dec 2016	1155 (+35)	170

Other business

9. On 29 November, the Commission's Deputy Chair Ronnie Hinds, Controller of Audit Fraser McKinlay, and Tim Bridle, Manager, Local Government (Technical), Audit Scotland, gave evidence to the Local Government and Communities Committee on the Commission's financial overview report, as part of its scrutiny of the Draft Budget 2018/19.

Audit Scotland

10. An internal Audit Scotland Islands Forum has been established with the purpose of enhancing the quality and impact of audit through knowledge exchange. In its first meeting in October, the forum made decisions as to the design and use of the Forum to support audit work. Agreed actions include setting up internal communications focused on islands; creating links to programme development work; and producing an Islands Key Facts paper. The forum will meet again in January and April. The latter will focus on the Islands Bill, with invited speakers from the Scottish Government and islands councils. The forum will report to the Commission as appropriate, for example, around the progress of the Islands Bill.

11.	On 18 January, Audit Scotland will hold its staff conference at the Dunblane Hydro. The theme of the conference is Challenge and Transformation. Speakers include the Commission's Chair, Graham Sharp.

Issues affecting local government

Scottish Government

12.	On 2 November, the Scottish Government published [The Role of Income Tax in Scotland's Budget.](#) It outlines four "tests" which the Government believes any new policy must meet: maintaining and promoting public services; protecting the lowest earners from any increase; making the system more progressive and reducing inequality; and supporting the economy. It also includes the income tax proposals that each of the parties represented in the Scottish Parliament had in their 2016 manifestos and an analysis of these proposals.

13.	On 2 November, the Scottish Government launched a consultation on [Excellence and Equity for All: Guidance on the Presumption of Mainstreaming](#) (to be closed on 9 February). The document aims to bridge the gap between legislation, policy and day-to-day experience, to ensure that local authorities have the guidance required to help their decision making in applying the presumption of mainstreaming. It is proposed that the Commission does not respond to this consultation.

14.	On 7 November, the Scottish Government launched [Empowering Schools: A consultation on the provisions of the Education (Scotland) Bill](#) (to be closed on 30 January). The Bill will give more power to head teachers to make decisions on curriculum choices, funding, and the staff and management structure. It will also see the establishment of Regional Improvement Collectives. The consultation seeks views on whether these changes will deliver the empowered school and teacher-led education system which the Scottish Government aims to achieve. It is proposed that the Commission and the Auditor General for Scotland will jointly respond to this consultation. The Commission will consider a draft response at its January meeting.

15.	On 7 November, the Scottish Government launched a consultation on the (to be closed on 5 February). The consultation seeks comments on the usefulness and content of a revised volume of practical fire safety guidance, which was agreed by the Ministerial Working Group on Building and Fire Safety in Scotland, formed in the wake of the Grenfell Tower tragedy. It is proposed that the Commission does not respond to this consultation.

16.	On 7 November, the Scottish Government published its [public sector cyber resilience action plan.](#) It will require public bodies to put in place common cyber security measures across their organisations. The plan lists eleven actions, most of which are required to be in place by June 2018, including developing a "common, effective, risk-based approach" to cyber resilience across the public sector. While the plan's focus is on public bodies, the Scottish Government intends to work with the wider public sector, including councils, colleges and universities. Audit Scotland is responding to the Scottish Government by committing to aligning its internal approach to the action plan wherever possible, reserving the right to abstain or take different actions to maintain its independence, particularly in areas that may come under future scrutiny. Audit Scotland's 2018 – 2021 Digital Services Strategy has a "security first" priority, with a commitment to increase the security of all its digital systems, improve existing malware protection and network security, and implement advanced threat management systems.

17.	On 8 November, the Scottish Government announced [the establishment of the Scottish Education Council.](#) The council will be chaired by the Deputy First Minister John Swinney and include young people, education leaders and representatives

from local authorities and the teaching profession (the membership list is included in the hyperlink). It will be a forum for open discussion and provide advice and guidance and oversee progress implementing improvement priorities.

18. On 9 November, the Scottish Government launched a consultation on its Fuel Poverty Strategy (to be closed on 1 February). It seeks views on an approach that brings together actions from across government, and across society, to create a comprehensive strategy to deliver reductions in fuel poverty. The responses to the consultation will inform the new strategy and the development of a Warm Homes Bill, due to be introduced in 2018, which will enshrine the proposed new fuel poverty target in legislation. It is proposed that the Commission does not respond to this consultation.

19. On 10 November, the Scottish Government published its State of the Economy report (it is published three times a year). It sets out the key trends in the economy in the first half of 2017 and the outlook for the coming year. The report highlights a strong economic performance in the first half of 2017 and that Brexit continues to present a significant risk to the Scottish economy. It also states that the Scottish Fiscal Commission will provide the first forecasts, including its official assessment of the outlook for key macroeconomic and fiscal indicators for Scotland, which will be accompanied with the Scottish Government's draft budget on 14 December.

20. On 10 November, the Scottish Government published Evaluating Participatory Budgeting (PB) Activity in Scotland (Year 2). The interim report presents the initial findings of an academic evaluation study of PB activity in Scotland, with a particular focus on local authorities. It finds that councils have taken a wide range of approaches to PB, resulting in a number of differences, including in levels of participation, and the processes for community engagement; participatory decision-making can be limited and challenging for both local authorities and communities; and strategic capacity and intent require to be more clearly articulated, resourced and reflected in the structures and operations of local authorities. The research has been extended for a third year to October 2018.

21. On 12 November, the Scottish Government announced plans to increase the number of people benefitting from the real Living Wage by at least 25,000. Measures being announced include launching a regionally-focused accreditation scheme to create the UK's first Living Wage towns, cities and regions.

22. On 13 November, the Scottish Government announced a new GP contract. Patients will be supported by multi-disciplinary community health team, which will reduce GPs' workload. It also announced an additional £30 million funding over three years to help reduce the risks to GPs of leasing or owning premises and improve practice sustainability.

23. On 14 November, the Economy Secretary Keith Brown announced the leaders of the new South of Scotland interim Economic Partnership. Professor Russel Griggs OBE will be the private sector chair and Rob Dickson will be a lead officer. The body will be established by the end of 2017.

24. On 14 November, the Scottish Government launched a consultation on Scotland's Energy Efficiency Programme (SEEP): Second Consultation on Local Heat & Energy Efficiency Strategies (LHEES), and Regulation of District and Communal Heating. LHEES would set a framework and delivery programme for how each local authority would both reduce the energy demand and decarbonise the heat supply of buildings in its area. Building on the previous consultation (January to April 2017), this consultation includes more specific proposals, such as the creation of a statutory framework for LHEES, to support a coordinated approach to the local planning and delivery of energy efficiency and heat decarbonisation programmes within SEEP. It is proposed that the Commission doesnot respond to this consultation.

25. On 15 November, the Scottish Government published [Review of Targets and Indicators for Health and Social Care in Scotland](). The independent national review was commissioned, with the support of COSLA, following a Programme for Government commitment to ensure the approach to performance is outcomes-based. It concludes that the current system can be improved on in terms of its effectiveness in improving services and recommended a move towards a system of indicators and targets which allow improvements across a whole system of care to be tracked.

26. On 15 November, the Scottish Government published [Respect for All: The National Approach to Anti-Bullying for Scotland's Children and Young People](). The guidance provides an overarching national framework and context for all anti-bullying work that is undertaken in Scotland. All organisations providing services to children and young people across the public, voluntary or private sector are expected to develop an anti-bullying policy that reflects this guidance.

27. On 16 November, the Scottish Government published [Rent Pressure Zone Requirements for Local Authorities](). The document specifies the requirements that a local authority must meet for a Rent Pressure Zone (RPZ) application to be valid in terms of the Private Housing (Tenancies) (Scotland) Act 2016. Section 35 of the Act enables a local authority to apply to the Scottish Ministers to ask that all or part of the authority's area be designated as an RPZ. Local authorities can use the RPZ provisions of the Act to protect existing tenants who have a Private Residential Tenancy from rents rising by too much.

28. On 16 November, the Deputy Prime Minister confirmed that Gayle Gorman, currently Director of Education and Children's Services with Aberdeen City Council, will be appointed as [Chief Inspector of Education and Education Scotland Chief Executive]() from 4 December.

29. On 19 November, the Scottish Government [announced the creation of the Advisory Council on Women and Girls]() to advise the Scottish Government on the action needed to tackle gender inequality. The group, which will be chaired by Louise Macdonald OBE, Chief Executive of Young Scot, includes members from the third sector, government and business, including three aged under 20 years old. The first term lasts for three years. The first meeting will be on 6 December.

30. On 20 November, the Scottish Government published [Research Project to Identify and Assess the Options for the Introduction of an Infrastructure Charging Mechanism in Scotland](). The research was commissioned, following the publication of the independent review of the Scottish planning system in 2016. It considers the advantages and disadvantages of identified options for an infrastructure charging mechanism to be applied through the Scottish planning system. The research will be used to help inform future decisions on this subject area.

31. On 21 November, the Scottish Government published three Core Facts guidance for local authorities regarding the School Estate. [The overview Core Facts]() complements the School Estate Strategy (2009). [The sustainability Core Facts]() and [the condition Core Facts]() are for reporting on sustainability and condition of the School Estate, respectively. Data included in the guidance is collected annually as part of the performance management regime for the School Estate Strategy.

32. On 23 November, the Scottish Government published [the first annual progress report on the Fairer Scotland Action Plan](). The Plan includes 50 actions to tackle poverty and inequality. The progress made to date includes funding of £29 million to address poverty and the creation of a national Poverty and Inequality Commission.

33. On 27 November, the Scottish Government [announced the members of the]()

Enterprise and Skills Board, including a representative from COSLA. The advisory panel, which will hold the first meeting on 13 December, aims to create a new strategy for enterprise and skills support in Scotland.

34. On 29 November, the Scottish Government announced that leisure and cultural venues currently run by council arm's-length bodies will continue to benefit from charity relief from non-domestic rates. Finance Secretary Derek Mackay confirmed that the Scottish Government will not be accepting the recommendation of the Barclay Review to end this benefit. He did however also announce that he will take steps to offset the charity relief benefit to councils "to deter" any new ALEO expansion in future.

Scottish Parliament

General:

35. On 6 November, following the announcement by the Living Wage Foundation that the new rate of the Living Wage for 2017/18 is £8.75, the Scottish Parliament Information Centre (SPICe) published The Living Wage: facts and figures 2017. In 2017, there are 430,000 employees in Scotland earning less than the Living Wage (about 18 per cent of all employees aged 18 and over in Scotland). While this is lower than the UK average of 22 per cent, it is a decrease from around 20 per cent in 2016.

36. On 16 November, the SPICe published a briefing paper on the Housing (Amendment) (Scotland) Bill. The Bill, introduced in the Parliament in September, aims to enable the Office for National Statistics (ONS) to reclassify Registered Social Landlords (RSLs) as private sector bodies for the purposes of the national accounts. Following the ONS' review in 2016, the status of the RSLs in Scotland has changed from private sector bodies to public sector bodies. As for English housing associations, on 16 November 2017, the ONS announced that it has reclassified them to the private sector, following passage of the Regulation of Social Housing (Influence of Local Authorities) (England) Regulations 2017, made under provisions in the Housing and Planning Act 2016.

37. On 17 November, the SPICe published Non-domestic rates and operating surplus 2010-2015. Non-domestic rates (NDR) as a share of operating surplus (Gross Value Added (GVA) minus wages) has remained relatively constant between 2010 and 2015 (on average, over that period, it was 3.6 per cent). Regional differences in the cost of NDR for businesses relative to their performance mainly reflect structural, non-policy factors such as productivity and property portfolios.

38. On 21 November, the SPICe published Earnings in Scotland 2017. Based on the Annual Survey of Hours and Earnings 2017 published by the ONS, the paper provides an overview of earnings in Scotland. It stated that in April 2017, the median, gross salary in Scotland for all employees was £23,150, which was an about two per cent decrease in real terms compared to April 2016. Over the last ten years, among the Scottish four largest cities, Dundee has seen the highest growth in gross week pay (in real terms) while Edinburgh has the highest level of pay.

39. On 28 November, the SPICe published Local Government Finance: Fees and Charges 2011-12 to 2015-16. The paper was produced in collaboration with Audit Scotland and intended to complement the financial overview (see paragraphs 23-26 of the overview). It aims to show the recent trends in local authorities charging for services. The analysis, based on the Local Financial Returns (LFRs) councils provide annually to the Scottish Government, found that councils raised £544.2 million from fees and charges to service users in 2015/16, accounting for less than four per cent of councils' total income. This has decreased from £569.7 million in

2011/12 (4.5 per cent, real terms) but totals have been effected by the use of Arm's Length Organisations and how income councils' have recorded elements of income in their LFRs. Social Work (44 per cent), Roads (12 per cent) and Education (11 per cent), combined, represented around two thirds of income from fees and charges to service users in 2015/16.

Parliamentary Committees:

Local Government and Communities Committee

40. At its [meeting](#) on 1 November, the Committee took evidence on homelessness from the Scottish Government and considered the evidence heard. It also took evidence on City Region Deals from the academics and businesses.

41. On 6 November, the Committee [heard directly](#) from local businesses and communities about Glasgow City Region Deal. It asked about their expectation from the deal and their involvement in the development of the deal.

42. At its meetings on [8](#), [15](#) and [22](#) November, the Committee continued to hold evidence sessions on City Region Deals from councils, the Scottish and UK government and others. On 8 November, it agreed to write to the local authorities on their approach to inclusive growth in City Region Deals.

43. On 15 November, the Committee also took evidence on Scottish Housing Regulator Annual Report and Accounts 2016/17 from the Scottish Housing Regulator.

44. On 22 November, the Committee also took evidence on Scottish Government's Draft Budget 2018/19 from COSLA and the Improvement Service.

45. At its [meeting](#) on 29 November, the Committee took evidence on the Housing (Amendment) (Scotland) Bill from the Scottish Housing Regulator and others.

Public Audit and Post Legislative Scrutiny Committee

46. At its meeting on [2](#) and [9](#) November, the Committee took evidence on the Auditor General for Scotland's NHS workforce planning report, from NHS Scotland and Scottish Government. It took further evidence from Caroline Gardner, Auditor General for Scotland and Audit Scotland (Richard Robinson, Audit Manager and Nichola Williams, Auditor). The Committee agreed to consider at a future meeting whether to take any further action on the report.

47. At its [meeting](#) on 16 November, the Committee took evidence on the Auditor General for Scotland's report, NHS in Scotland 2017, from Caroline Gardner, Auditor General for Scotland and Audit Scotland (Claire Sweeney, Associate Director and Kirsty Whyte, Audit Manager). The Committee agreed to follow up with the Scottish Government issues in the report and in the Auditor General's NHS workforce planning report. It also took evidence on the Auditor General for Scotland's section 22 report, The 2016/17 audit of NHS Tayside, from Caroline Gardner, Auditor General for Scotland and Audit Scotland (Fiona Mitchell-Knight, Assistant Director of Audit, and Bruce Crosbie, Senior Audit Manager). The Committee agreed to await the publication of a report by the NHS Tayside Assurance and Advisory Group before deciding whether to take any further action on the audit report.

48. At its [meeting](#) on 23 November, the Committee took evidence on the Auditor General for Scotland's report, Transport Scotland's ferry services, from Audit Scotland (Fraser McKinlay, Director of PABV, and Graeme Greenhill, Senior Manager). It agreed to take evidence on the report from Transport Scotland.

Finance and Constitution Committee

49. At its meetings on 8 and 15 November, the Committee continued to take evidence on legislative consent memorandum for the European Union (Withdrawal) Bill (UK Parliament Legislation) from the UK Government and academics.

50. At its meeting on 29 November, the Committee will continue to take evidence on legislative consent memorandum for the European Union (Withdrawal) Bill (UK Parliament Legislation) from the Scottish Government. It will also take evidence on the Impact of Brexit on the Scottish Budget from the academics and think-tank. Finally, it will take evidence on the administration and collection of Scottish income tax from HM Revenue & Customs (HMRC).

Others

51. On 20 November, the Equalities and Human Rights Committee published Stage 1 report on the Gender Representation on Public Boards Bill. The Bill sets a 'gender representation objective' for public boards to have half of women non-executive members by 2022. The Committee supported the general principles of the Bill and made a number of recommendations to strengthen the Bill. The Committee will continue to make the case for other protected characteristics to benefit from similar measures. Also, it is asking reassurances from the Scottish Government that this law will not have any unintended consequences for other protected characteristics.

Current activity and news in Scottish local government

COSLA

52. On 27 October, COSLA reported that discussions with the Scottish Government over the local government settlement for 2018/19 are underway and, in its announcement, COSLA stated its view that pay inflation will be an important part of this.

53. On 1 November, COSLA announced that at least one per cent of local government budgets will be subject to participatory budgeting by the end of 2021, giving communities more choices to make decisions on how funding is spent in their localities.

54. On 2 November, COSLA welcomed the Scottish Government's consultation on mainstreaming in education. It stated that it works to develop a better understanding of experiences of inclusion and mainstreaming in Scottish schools.

55. On 12 November, COSLA attended the Local Climate Summit for Regional and Local Leaders and stated that all levels of government must work together to address climate change, if we are to meet the Paris CO2 target. The Summit was organised in Bonn Germany where the United Nations COP (Conference of the Parties) 23 meeting was held.

56. On 16 November, COSLA called for the Chancellor of the Exchequer, Philip Hammond, to deliver a fair funding settlement for local government as part of the Autumn Budget. The document stated that, in 2018/19, to continue the current services, local government would need a revenue funding of £10,185 million, an increase of 5.7 per cent (if considering inflation and demand) from £9,640 million for 2017/18.

57. On 22 November, following the UK Government's budget announcement, COSLA commented that it is delighted to see the UK Government has brought changes in the budget to address concerns about the delivery of universal credit. It stated that it will continue to work with the government to improve the design of Universal Credit.

58. On 24 November, COSLA announced that, in response to [the Scottish Government's consultation on education bill](#), it is writing to the Deputy First Minister outlining their concerns around a number of issues included in the consultation and to seek a meeting with him as soon as possible.

59. Following a [Herald report](#) on 27 November that Edinburgh City Council has asked the Mayor of London's office to join it to lobby together for increased discretionary tax-raising powers, COSLA confirmed that it is to make a similar request to the Scottish Government on behalf of Scottish councils.

Improvement Service

60. In November, the Improvement Service announced that [Tellmescotland](#), Scotland's national public information notices portal, has been renewed. The portal provides public information notices issued by local authorities across Scotland, such as planning, licensing and road restrictions in each area. The Improvement Service has operated the site for a decade with support from the Scottish Government.

By-elections

61. There have been no by-elections since my last report.

Other local government developments

62. In its Budget announcement on 22 November (see paragraph 68), the UK Government advised that it has begun negotiations on a growth deal for the Borderlands, a cross-border initiative involving joint proposals put forward by Dumfries and Galloway Council and the Scottish Borders Council, together with Northumberland and Cumbria County Councils and Carlisle City Council. The UK Government also said it was continuing to make good progress towards a city deal for Stirling and is in negotiations for a Tay Cities deal. It also announced an allocation of £20 million per year between 2018/19 and 2020/21 to support the Edinburgh and South Scotland City Region Deal.

Scrutiny, inspection, regulatory and related bodies

Care Inspectorate

63. On 31 October, the Care Inspectorate published [the joint inspection of services for children and young people in Inverclyde](#). It found that notable improvements in the wellbeing and life chances of children and young people, with a commendable focus on those who were most vulnerable. Areas for improvement include further strengthening joint risk assessment and decision making in response to child protection concerns and developing joint quality assurance systems and processes to achieve high standards of practice in key processes more consistently.

Scottish Public Sector Ombudsman (SPSO)

64. The SPSO's [newsletter – November](#) outlines investigation reports, recent SPSO news and highlights emerging issues. More information on the SPSO's work, including detailed investigations and decision reports, is available on the '[Our findings](#)' webpage. The FAAC meeting will consider more detailed intelligence from the SPSO six-monthly.

Commissioner for Ethical Standards in Public Life in Scotland

65. Since my last report, the Commissioner published one decision on complaints relating to councillors. The Commissioner decided that [Councillor Tim Brett](#), Fife

Council breached the Councillors' Code of Conduct.

Standards Commission for Scotland

66.   There has been no hearing by the Standards Commission since my last report:

UK Government

67.   On 7 November, the UK Government published a policy paper with further details of the UK's proposed administrative procedures for EU citizens obtaining settled status after Brexit. The application will be made to the UK authorities, within a period of time after Brexit. It stated that the process should be simple for those who already have permanent residence.

68.   On 22 November, the Chancellor of the Exchequer, Philip Hammond, delivered the Autumn Budget. Between 2017/18 and 2020/21, the Scottish Government will receive about additional £2 billion. £1.6 billion (around 80 per cent) of this is capital spending with more than £1.1 billion from financial transactions (funding for loans or equity). The extra funding for the resource budget from 2017 to 2020/21 is projected to around £350 million. His announcement also included VAT liability for the Scottish Police and Fire services to be lifted (worth £35 million per year, although with no reimbursement for VAT already paid). 'For further details on the impact on Scotland, please see the SPICe briefing.

69.   On the same day, the Office for Budget Responsibility published updated forecasts in its economic and fiscal outlook. It has revised down forecasts for the UK's GDP from two per cent to 1.5 per cent in 2017.

70.   On 27 November, the UK Government published its Industrial Strategy. The strategy sets out the Government's plan to address four major challenges (artificial intelligence, clean growth, mobility and an ageing society). The Government has committed to investing £725 million to the Industrial Strategy Challenge Fund (ISCF) over the next three years.

UK Parliament

Communities and Local Government Committee

71.   On 2 November, the Committee launched an inquiry into the impact of the longer implementation period for 100 per cent retention of business rate revenue amid uncertainty for councils about what happens when their current funding settlements come to an end in 2020 (to be closed on 14 December). The new funding system was originally due to be implemented in 2019/20, with the Revenue Support Grant phased out and councils taking on new responsibilities in return for the increase in their business rate revenue. However the Local Government Finance Bill, which contained provision for 100 per cent retention, fell when the Parliament was dissolved for the General Election. The inquiry will assess the implications of the extended implementation period and how it is affecting councils' financial planning.

72.   On 13 and 20 November, the Committee continue to take evidence from experts and providers of specialist retirement housing, as part of its inquiry in to housing for older people, examining whether the housing on offer for this group of people is sufficiently available and suitable for their needs and, in doing so, considering how older people wish to live.

73.   On 16 November, the Committee announced that it will hold a draft Tenant Fees Bill inquiry next year. It will conduct pre-legislative scrutiny of the Government's proposals to prohibit letting fees imposed by landlords and letting agents on tenants,

in relation to the draft Bill. The Bill aims to deliver 'a fairer, more competitive, and more affordable lettings market.

74. On 27 November, the Committee held a one off session as part of its inquiry into the Homelessness Reduction Act, to examine the guidance issued to local authorities ahead of the Act coming in to force in April. The Committee questioned the Local Government Minister along with representatives from local authorities and homelessness charities.

75. On 28 November, the Committee published Reforming Local Authority Needs Assessment. The independent research is aimed at contributing to the Government's Fair Funding Review and the work implementing 100 per cent retention of business rates for local authorities. It suggests that ways in which the current needs and funding assessments for councils could be made simpler and more transparent.

Scottish Affairs Committee

76. On 6 November, the Committee held evidence sessions in Stirling as part of its inquiry into sustainable employment. It heard from three panels of representatives from the Scottish Government, third sector groups, and Scottish agencies and the Fair Work Convention.

77. On 14 and 27 November, the Committee held evidence sessions as part of its inquiry into immigration and Scotland, to examine how well the UK's immigration system meets Scotland's needs. It heard from academics about what future immigration rules for EU citizens might apply post-Brexit as well as business and sectoral organisations about their labour requirements, and the relationship between immigration and the Scottish economy. The meeting on 27 November took place in Glasgow.

78. On 19 November, the Committee published its report on the European Union (Withdrawal) Bill. It called for further efforts to end the "devolution stalemate" between the UK and devolved administrations through cooperation.

Public Accounts Committee

79. On 14 November, the Committee published its report on Brexit and the future of Customs. Under current plans, the UK is set to leave the European single market and the customs union in March 2019. It reported that it would be catastrophic if viable custom system is not in place. It stated that the UK Government must do more to work with businesses and ensure contingency options are in place well before January 2019.

80. On 15 November, the Committee started to hold evidence sessions as part of its inquiry into teacher development and retention. It heard from teachers and former teachers about their experiences of teacher development and retention.

81. On 20 November, the Committee started to hold evidence sessions as part of its inquiry into Brexit and the borders, to examine how arrangements around the enforcement of the UK border will change. It heard from the Home Office, UK Border Force and HM Revenue and Customs.

82. On 27 November, the Committee started to hold evidence sessions as part of its inquiry into homeless households. It heard from councils and the local government ombudsman about authorities' progress with combatting homelessness. It also heard from the UK Government about their work in reducing the number homeless households and whether benefit reform is contributing to the problem.

83. On 29 November, the Committee will launch [an inquiry into the Government's borrowing and accounts](#). It will hear from officials at HM Treasury, Debt Management Office and National Savings & Investments about the management of risks associated with government borrowing and about the overall health of the government's accounts.

UK local government

84. On 10 November, the Local Government Association published [a new analysis](#) ahead of the Autumn Budget, showing the strain being placed on council budgets as a result of the rising demand for adult social care and children's services. It predicted that for every £1 of council tax, almost 60 pence could be spent on social care by 2020, taking away from "vital day-to-day services". It urged that local government must be allowed to keep all of the business rates it collects locally while the Local Government Finance Bill, which will enable local government to do this, was passing through parliament before the election and was not reintroduced in the Queen's Speech.

85. On 10 November, the County Councils Network, cross-party special interest group of the Local Government Association, representing England's county authorities, published [New Deal for Counties: Our plan for Government.](#) It stated that there are large disparities between resources allocated to rural public services and their urban counterparts. Collectively, England's 37 county areas, received £3.2 billion less than the English average (including London and towns and cities outside rural areas) this year. The organisation asked the government to address the 'postcode lottery' of government funding.

86. In its 22 November [analysis of the 2017 Budget](#), the Office for Budget Responsibility has reported that English upper-tier councils have eaten into their reserves due to social care pressures. It reports that upper tier authorities drew down £1.4 billion from their reserves in 2016-17 - much higher than the £200 million figure in the previous year. This formed the bulk of English councils' use of reserves, which was £1.5 billion in total in 2016-17 - up from £400 million in all in 2015-16. Prior to 2015-16, English local authorities last drew down from their reserves in 2009-10 - using £300 million in total.

87. On 24 November, CIPFA and local government consultancy firm Peopletoo published their [Changing Children's Lives](#) report which stated that children's social care has become the chief concern of upper tier council chief finance officers (CFOs). Adult social care – the top concern for CFOs for the past four years – has now dropped one spot to number two. The report – which reports upon a survey of 73 CFOs in England, states that pressure on children's social service budgets and growing demand is driving this concern.

Other UK Audit Bodies

National Audit Office (NAO)

88. On 7 November, the NAO published a [report](#)about the UK Government's borrowing. Whole of Government Accounts for 2015/16 reported net liabilities of £1,986 billion, of which £1,261 billion was debt from borrowing. This is the equivalent of £47,000 for every household in the UK and debt has increased by 61 per cent since 2009/10, with interest costing £222 billion.

89. On 17 November, the NAO published a briefing on [the UK Government's preparations for Brexit](#), with a particular focus on the coordination role of the Department for Exiting the European Union.

90. On 24 November, the NAO published [Implementing the UK's exit from the European Union: Infrastructure and Projects Authority.](link) The briefing examines how the Infrastructure and Projects Authority is supporting government departments as they prepare for implementing EU Exit.

91. On 27 November, the NAO published [The administration of the Scottish Rate of Income Tax 2016-17](link). It stated that maintaining accurate address records of the 2.6 million Scottish taxpayers remains the largest risk facing HMRC in ensuring that Scottish income tax is assessed and collected properly while it recognized good progress HMRC has made.

Northern Ireland Audit Office (NIAO)

92. On 21 November, the NIAO published [Homelessness in Northern Ireland](link). It said that the growing homelessness trends reflected in official Departmental statistics indicate that the aim of reducing homelessness over the course of the Homelessness Strategy 2012-17 has had limited success.

Others

93. On 24 October, Deloitte published [the State of the State report 2017/18](link). The annual report, informed by interviews with public sector leaders and a survey of citizen and business as well as analysis of government data, looks at the current state of the UK public sector. It highlights local and immediate challenges for public services to address rising demand, continuous budget pressures and pressing concerns over social inequality.

94. On 20 November, the Scottish Futures Trust (SFT) published its [2016/17 Annual Business Review](link). For the 2016/17, the SFT benefit estimate is £138 million. Highlights include £400 million additional investment into affordable-rent housing.

Conclusion

95. The Commission is invited to:

- agree the proposal to respond to the Scottish Government consultation on Empowering Schools: A consultation on the provisions of the Education (Scotland) Bill (paragraph 14).

- agree the proposal not to respond to the Scottish Government consultations on:
    o Excellence and Equity for All: Guidance on the Presumption of Mainstreaming (paragraph 13)
    o Practical Fire Safety Guidance for Existing Premises with Sleeping Accommodation (paragraph 15)
    o Fuel Poverty Strategy (paragraph 18).

- consider and note this report.

Paul Reilly
Secretary to the Commission
29 November 2017

ACCOUNTS COMMISSION ✓

MEETING: 7 DECEMBER 2017

REPORT BY: SECRETARY TO THE COMMISSION

ROLLING WORK PROGRAMME: ANNUAL REFRESH

Introduction

1. The purpose of this report is to introduce Audit Scotland's proposals for the annual refresh of the Commission's rolling work programme.

Background

2. The Commission's Strategy sets out that the Commission will maintain a five-year rolling programme of work. This programme covers all aspects of the work done on the Commission's behalf by Audit Scotland beyond the financial audit, and thus covers overview reporting, shared risk assessment and scrutiny planning, Best Value Assurance Reports, performance audits, statutory reporting, the How Councils Work series, impact reporting, and outputs from programme development activity. The programme is published jointly with the Auditor General. The programme is refreshed on an annual basis, setting out detailed work for the first two years and an indication of likely areas of work for the subsequent three years.

3. Last year, at its meeting on 8 December 2016, the Commission considered Audit Scotland's proposals for the annual refresh of the Commission's rolling work programme. It approved a draft work programme and agreed arrangements for consultation with stakeholders on the draft work programme.

4. The stakeholder consultation yielded responses from 23 councils, COSLA, SOLACE, and two trade unions (GMB and Unison). The Commission considered the outcome of the stakeholder consultation at its meeting on 9 March 2017 and agreed a number of responses to submissions made in the consultation, which were then shared with consultees and taken forward in programme development work (these are indicated in the table in paragraph 13 below). The Commission approved the work programme, subject to liaison with the Auditor General for Scotland in relation to any joint audit work. The work programme was subsequently published and is set out in Appendix 1.

Commission Strategy

5. The Commission's Strategy states that its work programme will reflect the following:

- Ensuring that our overview reporting provides an assessment of the performance of local government that informs discussion and debate about the issues that it faces.

- Taking forward our new approach to the financial audit and auditing Best Value to clearly set out the Best Value expectations of councils and report on councils' delivery of key public services and their use of public money.

- Ensuring that our national performance audit work appropriately covers the key areas of public policy and is facilitating improvement in those areas.

- Ensuring that our work follows the public pound by reporting upon the range of

approaches that are used by councils in delivering services and improving communities.

- In conjunction with our scrutiny partners, continuing to coordinate the audit, inspection and regulation of local government in Scotland.

- Better reflecting the interests of the citizen, service user and communities in our work, including Best Value auditing, in performance audits and in our joint work with our scrutiny partners.

- Promoting good practice and innovation in our work and making more effective use of data and analysis in our reports.

6. The Commission's Strategy also sets out a set of strategic audit priorities on which it will use its approach to auditing Best Value to assess how councils are progressing, thus:

- Having clear priorities and better long-term planning.

- Recognising that incremental savings are not enough, and thus evaluating options for more significant changes in how they deliver services.

- Ensuring their people – members and officers – have the right knowledge, skills and support to design, develop and deliver effective services in the future.

- Involving citizens more in making decisions about local services and empowering local communities to identify and help deliver services they need.

- Reporting their performance in a way that enhances accountability to citizens and communities.

7. While these strategic audit priorities feature mainly in the new integrated approach to the financial audit and auditing Best Value, Audit Scotland is also mindful of these in its programme development work on behalf of the Commission.

8. The Commission reviews its Strategy at its annual strategy seminar (which will next take place in March 2018). Part of this review is to consider if the features that it seeks in its work programme (set out in paragraph 5 above) need to be revised. Another part of the review is to focus on the strategic audit priorities (set out in paragraph 6 above) and consider if these are to be refreshed and taken forward in financial audit and Best Value work.

Proposals

9. Audit Scotland is proposing a refresh of the work programme as set out in Appendix 2.

10. The proposals have been subject to initial high level discussion between Audit Scotland officials, the Commission Deputy Chair and the Auditor General.

11. The Commission has in recent years encouraged different features in the direction and development of its work programme. The programme reflects flexibility and responsiveness, thus including significant amounts of work done jointly with the Auditor General. It has an increasingly wide range of outputs beyond performance audits arising from programme development work, such as briefings and round table events. Audits are of varying size depending on the policy area covered. Audit outputs

2

are also increasingly varied with different ways of presenting messages from reports. Promotion of audit work is also becoming increasingly creative and varied.

Commission areas of interest

12. As the attached paper identifies, Audit Scotland addresses the Commission's strategy – including the features and strategic audit priorities in paragraphs 5 and 6 above – in its refresh proposals. The proposals also address areas of interest that the Commission has identified in its work since publishing the current work programme.

13. Both of the Commission's committees review its external environment with a view to ensuring that its work programme appropriately reflects the risks in this environment. The Performance Audit Committee monitors the overall progress of the work programme with specific focus on performance audits. The Financial Audit and Assurance Committee monitors issues arising in individual councils through the financial audit. Accordingly, throughout the year both committees (and indeed the Commission itself) have identified issues to be addressed across the work programme: the PA Committee mainly around performance audit and related work; the FAA Committee mainly around issues affecting the Commission's strategic audit priorities being taken forward in the integrated approach to financial audit and auditing Best Value. These are summarised in the table below:

Issue (and when agreed)	Audit Scotland proposal
Income generation in councils and issues around commercial activities of councils in identifying new income streams **Strategy seminar, March 2017** **(also identified in stakeholder consultation)**	To be considered in scoping for the proposed performance audits on City Deals in 2018/19 and 2021/22.
Audit coverage of integrated children's services to remain under consideration in programme development activity, and be subject to discussion with scrutiny partners through the Strategic Scrutiny Group **Commission meeting, March 2017** **(also identified in stakeholder consultation)**	The PA Committee considered in April 2017 a policy briefing on pathways to positive destinations for looked after children and children with additional support needs. The Committee agreed inter alia that future work in this regard should recognise young people with additional support needs and looked after young people as separate groups. There is an ongoing audit on children and young people's mental health. Propose a joint audit in 2021/22 of outcomes for children with additional support needs, following the whole journey from early learning and childcare through to school/HE/FE into employment. Propose a joint audit in 2022/23 on national and local progress towards the Child Poverty Bill 2017 improvement goals.
Services such as environmental health, trading standards, planning and libraries should continue to be monitored through programme development activity and in the new approach to auditing Best Value **Commission meeting, March 2017** **(also identified in stakeholder consultation)**	Continue to monitor in outputs from annual audit and Best Value auditing. Continue to monitor through Health, Care and Communities cluster.

Issue (and when agreed)	Audit Scotland proposal
Pupil equity fund **Commission meeting, March 2017** **(also identified in stakeholder consultation)**	Taken forward in work programme development and policy cluster. Also officer-led 'round table' initiative with stakeholders in Autumn 2017.
A continuing interest in matters around young people with additional support needs **PA Committee, April 2017**	See above.
Continue to closely monitor the implications for the work programme of policy developments in relation to climate change **PA Committee, April 2017**	Propose to defer to 2020/21 the joint audit on flood risk management, which was previously scheduled for 2019/20. This will help smooth capacity across the work programme and the proposed change of timing would not undermine the value of doing work in this area, given the long-term nature of flood risk management. Continue to monitor through Public finances, Investment, Economic Development cluster.
Agreed that Brexit would be an important factor worthy of monitoring in relation to workforce planning matters **PA Committee, June 2017**	Propose a briefing paper in 2018/19 for the Accounts Commission and AGS on the potential impact on Brexit for Scotland's public services, drawing on PIE cluster activity and the work of Audit Scotland's New financial powers and constitutional change audit programme. Propose a joint performance audit in 2020/21 on public sector workforce planning for skills post Brexit. Propose a joint performance audit in 2022/23 on replacing structural funds (post-Brexit).
An interest in economic development issues **PA Committee, June 2017**	Proposing a performance audit in this regard in 2019/20, although also featuring in other performance audits and would have increasing prominence in Auditor General audit work.
Robustness of option appraisal to continue to be considered for future performance audit or related work **FAA Committee, February 2017**	Will continue to feature in the integrated approach to auditing Best Value.
An output around local authority emergency and resilience planning arrangements (depending on how this would fit with other national policy initiatives in this regard) **Mid-year strategy seminar, September 2017**	Proposing a briefing paper in 2018/19 for the Accounts Commission and AGS on UK and Scottish responses to the Grenfell Tower tragedy (to include any local authority emergency planning issues).
Addiction issues **Mid-year strategy seminar, September 2017**	Propose a briefing paper in 2018/19 for the Accounts Commission and AGS on public health (to cover the new public health agency and its role in addressing complex public health issues such as inequality of outcomes, the impact of complex social disadvantage on service use e.g. addictions).
Higher profile outputs around benefits auditing **Mid-year strategy seminar, September 2017**	To be taken forward in the benefits administration audit (briefing paper to Commission in early 2018).

Issue (and when agreed)	Audit Scotland proposal
Medium to long-term thinking around rural services. **Mid-year strategy seminar, September 2017**	Propose a briefing paper in 2018/19 for the Accounts Commission and AGS on how rural issues are being considered by Audit Scotland as part of programme development activity and in local and national audit work.
A two-stage approach be taken to the proposed performance audit on community justice, with an initial report publishing in early autumn 2018 and a second stage publishing in 2021/22, subject to considering the audit in the context of the wider work programme. **PA Committee, November 2017**	This is reflected in the attached proposals.

14. It is important for the Commission to assure itself at today's meeting, in agreeing proposals for the refresh of the work programme, that these and indeed any other policy areas of interest are covered appropriately either by performance audits, other outputs from programme development work, or by ongoing monitoring through policy cluster work.

How councils work

15. The attached proposals assume that one *How councils work* report will be produced in 2018/19. It is recommended that the Commission considers its overall approach to *How councils work* reporting in early 2018 once it has had the opportunity to reflect on key themes arising from the first tranche of Best Value Assurance Reports (the last of which - Clackmannanshire Council - will be reported to the Commission in January 2018) and its subsequent consideration in February of the Controller of Audit's Annual Assurance and Risks Report. Meantime, the programme will contain a provision for such a report if the Commission thinks it is appropriate.

Equalities considerations

16. In line with the Commission's equalities outcomes commitments, Audit Scotland undertook an equality impact assessment (EIA) on the work programme refresh process last year, which was reported to the Commission. Audit Scotland's Audit Scotland's Equality and Diversity Steering Group will consider the need any further EIA work in relation to the process. It is also intended to consult in early 2018 with Audit Scotland's Equalities and Human Rights Advisory Group, consisting of representatives of a wide range of communities, on the refresh proposals. This is discussed in paragraphs 40 to 42 of Appendix 2.

Consultation

17. The Commission is obliged by statute to consult with stakeholders before undertaking any of its performance audit work (specifically 'such associations of local authorities or other bodies whose accounts are required to be audited' and '(appropriate) associations of employees').[1] It is therefore proposed that the Commission consults immediately on the draft work programme with COSLA, the Scottish Local Government Partnership, SOLACE and trade unions Unison, Unite and GMB (these are the three

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[1] 1973 Local Government (Scotland) Act, section 97A(3).

members of the Scottish Joint Council, which represents local government employees).

18.   I will report back to the Commission on the outcome of the consultation.

Conclusion

19.   The Commission is invited to:

- Approve the attached proposed draft work programme including detailed proposals for 2018/19 and 2019/2-, as a basis for consultation with stakeholders, subject to discussion between the Chair and Auditor General for Scotland.

- Agree, in noting that the proposed draft work programme contain a commitment to a *How councils work* report in 2018/19, that further consideration be given to this matter following consideration of the first six Best Value Assurance Reports and the Controller of Audit's Annual Assurance and Risks Report.

- Note that the activities around the diversity and equality implications of the work programme.

- Approve the proposed consultation arrangements.

- Note that I will report back on the outcome of the consultation.

Paul Reilly
Secretary to the Accounts Commission
28 November 2017

Accounts Commission work programme: 2017/18 and 2018/19

	2017/18	2018/19
Best Value	• Inverclyde • Renfrewshire • East Renfrewshire • West Lothian • Orkney • Clackmannanshire	• Glasgow • West Dunbartonshire • East Ayrshire • Fife • Dumfries and Galloway • East Lothian
Shared risk assessment	National scrutiny plan and 32 Local Scrutiny Plans (Commission)	National scrutiny plan and 32 Local Scrutiny Plans (Commission)
Performance Audit *	• *Early learning and childcare* • *Equal pay* • *Self Directed Support 2* • Arm's-Length External Organisations (ALEOs) • * Children's mental health • * City Deals • * Health and social care integration pt 2	• Community justice • * Employability – transfer of new powers • Housing • * Reforming public services through better asset management • * Value-for-money of NPD projects (including PFI/PPP)
Overview reports	• Local government financial overview • Local government overview	• Local government financial overview • Local government overview
Statutory reports	As required	As required
How councils work	It is proposed to use intelligence from the new BV audit approach to inform future *How councils work* activity.	To be confirmed, based on intelligence from new Best Value auditing approach.
Impact reports	• CAP futures • Roads Maintenance • Social work in Scotland	• Equal pay • Early learning and childcare • City Deals • Children's mental health

Potential alternative outputs (illustrative)	• Local government support for public transport
	• Internal audit and scrutiny
	• Indebtedness and borrowing
	• * Youth justice update
	• * Climate change and resilience planning
	• * National Performance Framework
	• * Public sector pensions in Scotland (briefing paper)
	• * Educational attainment (round table outputs)
	• * Workforce planning (analysis of auditor returns)
		• Public sector pensions – LGPS
		• Community empowerment:
		   o participation requests
		   o participation in public decision making
		   o participatory budgeting
		   o asset transfer
		   o service integration and prevention
		• * Capital Investment – financing commitments
		• * EU funding analysis – spending and commitments
		• * NFP support to Finance Committee
		• * Key issues for audit committees
		• * Governance – analysis of auditor returns
		• * Cyber security – key issues

Key:
* joint audit or work with the Auditor General
audits in italics are already in progress

Five-year rolling work programme, 2017/18 to 2020/21

The table below summarises proposals for audit work from 2017/18 to 2021/22. Proposals for audit work in 2018/19 – 2020 relate to areas of reform, risk or public interest. These will include themes of work involving a series of reports, for example proposals for audits focused on mental health services and housing. We will continue to monitor developments in these areas as we continue to develop the programme on a rolling basis.

2017/18	2017/18	2018/19	2019/20	2020/21	2021/22
Best Value	See previous page		• 6 or 7 BVARs (to be confirmed following 18/19 SRA process)	• 6 or 7 BVARs (to be confirmed following 19/20 SRA process)	• 6 or 7 BVARs (to be confirmed following 20/21 SRA process)
How councils work			• To be confirmed	• To be confirmed	• To be confirmed
Overview reporting			• Local government financial overview • Local government overview	• Local government financial overview • Local government overview	• Local government financial overview • Local government overview
Performance audits			• Supporting economic growth – role of local authorities • Early learning and childcare (2) • Flood risk management • School educational attainment • Waste management • Digital progress in local government	• Innovative Financing - City Deals (2) • Supporting economic growth: impact of enterprise and skills review • Housing • Youth justice • Health & social care integration 3 • Improving outcomes for looked after children • Impact of investment in the school estate • Workforce planning for skills post Brexit • Digital services (learning or justice) • Commonwealth Games legacy – six years on	• Social security • Early learning and childcare (3) • Criminal justice • Mental health 3
Impact reports *			• ALEOs • Community Justice • Employability – transfer of new powers • VFM of NPD projects • Reforming public services through better Asset Management • Housing	• Community empowerment • Supporting economic growth – role of local authorities • Flood risk management • School education attainments	• Innovative Financing – City Deals (2) • Housing • Youth justice • Improving outcomes for looked after children • Impact of investment in the school estate

* Note: the sequencing of impact report publication may be subject to change in response to any significant policy developments that impact on audit recommendations.

APPENDIX 2: WORK PROGRAMME REFRESH PROPOSALS

(see attached Audit Scotland paper)

AUDIT SCOTLAND

Auditor General for Scotland and Accounts Commission rolling work programme refresh: 2018/19 – 2022/23

Introduction: scope and structure of the report

1. This paper sets out proposals for refreshing the Auditor General for Scotland (AGS) and Accounts Commission's five-year rolling work programme (2018/19 – 2022/23).

2. The paper is in three parts:

    - Part 1 – proposed changes to the 2018/19 – 2022/23 work programme

    - Part 2 – work programme proposals for 2018/19 and 2019/20

    - Part 3 – other issues (e.g. review of Best Value auditing, parliamentary engagement, equalities).

    A series of appendices to the paper contain information on the range and balance of work undertaken for the AGS and Accounts Commission over the last five years, together with more detailed information on each of the proposed audits.

3. The refresh proposals are informed by: our monitoring of public sector audit risks; the Accounts Commission's strategic audit priorities; and the wide range of policy monitoring, external engagement and programme development activity that Audit Scotland undertakes on behalf of the AGS and the Commission. They also take into account significant UK and Scottish policy developments, such as changes to education governance and the UK's decision to leave the European Union, that have taken place since the first iteration of the rolling work programme was approved in December 2015.

4. This paper focuses primarily on performance audit work, but presents this in the wider context of the broader programme of audit work undertaken on behalf of the AGS and the Accounts Commission (e.g. overview reporting, statutory reporting, and Best Value audit work). All of this work is underpinned by the local financial audit work that takes place annually at all audited bodies.

5. The programme includes a mixture of one-off pieces of work (e.g. Forth replacement crossing), longer-term audit programmes (e.g. new financial powers, health and social care, early learning and childcare), thematic work (e.g. digital, workforce), and audit activity to follow up on the impact of previously published audit reports.

6. Given the links between Audit Scotland's programme development activity and the work programme, the paper also highlights key areas of focus for programme development work during 2018/19 and 2019/20. This includes external engagement to inform potential audit work in areas such as housing and public health (including addictions).

7. The work programme proposals for 2018/19 and 2019/20 have been prepared on the basis that they can be delivered with the available resources. They reflect the respective balance of funding received by the AGS (47%) and the Accounts Commission (53%), and are based on Audit Scotland delivering a similar range and level of audit outputs for 2018/19 and 2019/20 as we have in previous years.

Part 1 – Proposed changes to the 2018/19 – 2022/23 work programme

8. This year's refresh process has confirmed the value in adopting a longer-term approach to work programming in that the major strategic priority areas of focus for our work remain relevant:

    - a significant programme of audit work on Scotland's New financial powers (including a wide range of activity linked to supporting improved Parliamentary scrutiny of the use of public finances)
    - ongoing implementation of the Accounts Commission's new approach to auditing Best Value
    - implementation of our new Digital audit strategy
    - audit work on public service reform (e.g. health and social care integration, justice-related reform, community empowerment)
    - further development of local government, NHS and colleges overview reporting.

9. Within that longer-term strategic context, a number of changes are proposed to the work programme 2018/19 – 2022/23. These include:

    - Changes to the timing of some pieces of audit work to ensure that they will add greatest value (e.g. delaying the timing of future work on health and social care integration to allow more time for integration authorities to bed in. This will allow firmer judgements to be made on the extent to which they are delivering service change and improving outcomes).

    - Changes to how some previously identified areas of audit interest might best be undertaken and reported (e.g. the incorporation of audit work on realistic medicine as part of future NHS overview reporting, and the incorporation of initial audit work on the transfer of employability powers as part of our wider programme of work on new financial powers).

    - A range of programme development activity (e.g. community empowerment, Brexit, the impact of the Grenfell Tower tragedy, addictions) to maintain oversight of significant policy developments and respond to emerging public sector audit risks. Some of this activity may lead to published programme development outputs.

    - A number of proposed new areas of audit activity (e.g. child poverty, services for children with additional support needs, teacher workforce planning) reflecting areas of audit interest that have been identified since the last work programme refresh in December 2016.

10. Proposed changes and the rationales for them are set out in Exhibits 1 and 2 below.

Exhibit 1

Refreshed performance audit proposals 2018/19 – 2022/23 (Commission and AGS)

★ New ➡ Move ⊕ Change ✖ Remove

	2018/19	2019/20	2020/21	2021/22	2022/23
Devolution	⊕ New financial powers and constitutional change (AGS) (incl. Employability – transfer of powers) ⊕ Employability (AGS)	• New financial powers and constitutional change (AGS)	• New financial powers and constitutional change (AGS)	• New financial powers and constitutional change (AGS)	• New financial powers and constitutional change (AGS)
Economy	➡ Innovative Financing – City Deals (Joint) (previously 17/18) ➡ Forth replacement crossing (AGS) (previously 17/18)	• A9 dualling (AGS) ➡ Value for money of NPD projects (Joint) (previously 18/19) • Supporting economic growth – role of local authorities (AC) (reporting early 20/21)	• Supporting economic growth: impact of enterprise and skills review (AGS)	• Development of Scotland's new agriculture and fishing policy post Brexit (AGS) ➡ Innovative Financing – City Deals (2) (Joint) (previously 20/21)	★ Replacing structural funds (Joint)
Policy	✖ Realistic medicine (AGS)	• Skills planning and investment (AGS) • Educational outcomes (Joint) ➡ Waste management (Joint) (previously 18/19) ➡ Community assets (Joint) (previously 18/19) ➡ Housing (Joint) (previously 18/19) ⊕ Early learning and childcare (2) (Joint) (19/20)	• Youth justice (Joint) ➡ Flood risk management (Joint) (previously 19/20)	• Social security (AGS) • Early learning and childcare (3) (Joint) ➡ Housing (2) (Joint) (previously 20/21)	
Public service reform	• ALEOs (AC) • Community Justice (Joint) ➡ Health and social care integration: Part 2 (Joint) (previously 17/18)		• Health and social care integration: Part 3 (Joint)	• Community Justice (Joint)	

	New	Move	Change	Remove

	2018/19	2019/20	2020/21	2021/22	2022/23
Performance and outcomes	➡ Children and young people's mental health (Joint) (previously 17/18) ✖ Prisoner healthcare (AGS) ⊕ Higher education (widening access) (AGS)	• Higher education (finances) (AGS)	• Improving outcomes for looked after children (Joint) ✖ Impact of investment in the school estate (Joint) ✖ Higher education (AGS)	★ **Outcomes for children with additional support needs** (Joint)	➡ Mental health 3 (AGS/ AC/Joint tba) (previously 21/22) ★ **Progress in addressing child poverty (cross cutting)** (Joint)
Skills and capacity	• NHS workforce (2) (Community based workforce) (AGS)		• Public sector workforce planning for skills post Brexit (Joint) • NHS Workforce (3) (AGS) ★ **Teacher workforce planning** (Joint)		
Digital	• Digital progress in central government and health (AGS) (reporting early 19/20)		• Digital services (learning or justice) (AGS/AC/Joint tba) (reporting early 21/22)		★ **Digital progress across government (cross cutting)** (Joint) (reporting early 23/24)
		• Digital progress in local government (AC) (reporting early 20/21)		• Progress against digital strategy – five years on (AGS) (reporting early 22/23)	
Performance Audit follow up	➡ Scottish fire and rescue services (previously 17/18) (AGS) • Broadband (AGS)		• Commonwealth Games legacy – six years on (Joint)		

Source: Audit Scotland

Exhibit 2

Rationale for the proposed changes to the work programme

Year	Proposed changes to the programme

2018/19	• **Remove:** It is proposed to remove the alternative output on Realistic medicine (AGS) as we are monitoring implementation and it is currently too early to form performance judgements. Given the significance of the realistic medicine agenda to patient safety and improved cost-effectiveness, issues linked to early implementation of the policy were highlighted in the NHS overview report 2017 and we will carry out further analysis in 2018/19. This analysis has the potential to be converted into a dedicated audit output on this topic. The merits of doing this will be considered during 2018/19.
	
	• **Remove:** It is proposed to remove the mental health: Prisoner healthcare audit (AGS) from the work programme as this topic is now subject to independent joint scrutiny by Her Majesty's Inspectorate of Prisons (HMIP) and Healthcare Improvement Scotland (HIS). Audit work in this area would therefore duplicate effort and be an inefficient use of resources. Audit Scotland will continue to liaise with these bodies as part of our ongoing programme development activity and the Accounts Commission will be maintaining a degree of oversight of the joint HMIP/HIS work through HMIP's attendance at and input into the work of the Strategic Scrutiny Group.
	
	• **Develop as an alternative output:** Rather than undertaking a full audit on Higher education (widening access) (AGS) in 2018/19, we are planning to analyse the routine data that the Scottish Funding Council is publishing on widening access performance and convert this into a short focused alternative output on early progress towards the Scottish Government's 2020 widening access targets which can be used to brief the Parliament's Public Audit and Post-legislative Scrutiny Committee (PAPLS)**.** The Equalities and Human Rights Committee held an evidence session on widening access in November 2017. The committee's findings will inform our audit work and we may wish to brief the committee on our audit findings.
	
	• **Adjustment to the work programme:** Given the inter-connectedness of the various policy issues and practical implications associated with implementation of Scotland's new financial powers, it is proposed to incorporate the Employability – transfer of new powers audit work (AGS) within the wider programme of new financial powers audit work rather than undertake it as a separate audit.
	
	• **Adjustments to the work programme:** There are five audits that were part of the 2017/18 work programme which will now be published in 2018/19:
	
	    ○ ***Scottish fire and rescue service: follow up (AGS)*** (planned publication - May 2018): the proposed change of timing reflects the availability of Audit Scotland staff with specific experience in these subject areas during 2017/18.
	
	    ○ ***Forth replacement crossing (AGS)*** (planned publication - June 2018): the proposed change of timing reflects the impact of the delay in completion of the project and the opening of the new crossing on our ability to start the audit.
	
	    ○ ***Children and young people's mental health (Joint)*** (planned publication - August 2018): the proposed change of timing reflects the availability of Audit Scotland staff with specific experience in these subject areas during 2017/18.
	
	    ○ ***Health and social care integration part 2 (Joint)*** (planned publication - October 2018): the proposed change of timing reflects the fact that it became clear during 2017/18 that audit work in the first full year of operation of most integration authorities would be premature. Further time was needed for the new arrangements to bed in and for integration authorities to develop and implement programmes of service change and improvement if the second stage health and social care audit was to add value. Publishing in November will allow us to take account of another set of accounts and performance reports and to have synergy between this report and the NHS and LG overview products. We will continue to monitor developments through local audit work and policy engagement, and will brief the AGS and Accounts Commission on emerging issues ahead of the second performance audit.
	
	    ○ ***Innovative financing – City Deals (Joint)*** (planned publication - January 2019): the proposed change of timing reflects the fact that it became clear during 2017/18 that the timing of agreeing the programme of Scottish City Deals was such that audit work could not realistically take place until 2018/19.

Year	Proposed changes to the programme
2019/20	• **Adjustment to the work programme:** It is proposed to defer the Housing audit until 2019/20 based on stakeholder feedback on the need for further time to elapse before reasonable audit judgements to be made about the Scottish Government new homes target and Housing First approach. If this change to the programme is approved we will hold a Housing Round Table in 2018/19 to build contacts with key external stakeholders and help inform the scoping of the future performance audit work. • **Adjustment to the work programme:** During the 2016 work programme refresh we proposed a second audit on Early learning and childcare for 2019/20 prior to the implementation of the expanded provision in August 2020. We are proposing this second audit be replaced with a combined impact and update report in 2019/20. The format of this report will be similar to the last Broadband update. This timing and new approach reflects the specific implementation timescales of the Scottish Government expansion plan to provide 1,140 hours of funded early learning and childcare. This output would be produced around 18 months after our initial February 2018 report (Joint). • **Adjustment to the work programme:** It is proposed to defer the Community assets audit (Joint) that was previously scheduled for 2018/19 to 2019/20. Since initially scheduling this work we have been working with the other members of the Strategic Scrutiny Group (SSG) and external experts to develop a programme of development activities. This activity focuses on improving our collective understanding and developing a scrutiny approach. This will allow public bodies more time to embed new arrangements such as: Local Outcome Improvement Plans (LOIPs); participation requests and wider role out of participatory budgeting. • **Adjustment to the work programme:** We are proposing to defer to 2019/20 the Waste management audit (Joint), which was previously scheduled for 2018/19. This will help smooth capacity across the work programme and the proposed change of timing would not undermine the value of doing work in this area, given the long-term nature of strategic waste management planning. • **Adjustment to the work programme:** We are proposing to defer the Value for money of NPD projects audit (Joint), which was previously scheduled for 2018/19, to 2019/20. This reflects the impact of the later start of the City Deals audit and will avoid two major audits in the innovative financing policy area taking place in the same financial year.
2020/21	• **New:** We are proposing an audit of Teacher workforce planning in 2020/21 (Joint) to replace the School estate audit (Joint) that is currently proposed that year. This reflects the significance of teacher workforce issues that have been evident during 2017/18 through our ongoing education policy monitoring and stakeholder engagement work. Evidence on the teacher workforce will be gathered as a part of the Educational outcomes audit that is scheduled in 2019/20 and used to inform the targeting of this audit. • **Adjustment to the work programme:** We are proposing to defer to 2020/21 the Flood risk management audit (Joint), which was previously scheduled for 2019/20. This will help smooth capacity across the work programme and the proposed change of timing would not undermine the value of doing work in this area, given the long-term nature of flood risk management. • **Remove:** It is proposed to remove the Higher education audit (AGS) scheduled for 2020/21 from the work programme. We will use the intelligence and outputs from the audit and programme development work we are undertaking in relation to widening access and higher education finances to inform decisions about our future work within this sector.
2021/22	• **New:** We are proposing a new joint audit of Outcomes for children with additional support needs, following the whole journey from early learning and childcare through to school/HE/FE into employment. This proposal reflects the strong interest shown in this area by both the AGS and Accounts Commission based on the policy briefing they received on this topic from the Justice, education and lifelong learning cluster earlier this year. • **Adjustment to the work programme:** We are proposing to move the City Deals 2 and Housing 2 audits from 2020/21 to 2021/22 to reflect the later start date of City Deals 1 and Housing 1.
2022/23	• **New:** We are proposing a cross-cutting audit on national and local progress towards the Child Poverty Bill 2017 improvement goals. • **New:** We are proposing an audit on Replacing structural funds (post-Brexit) to reflect the high level of Parliamentary and Accounts Commission interest in this strategically significant area. • **New:** We are proposing a cross-cutting audit on Digital progress across government, drawing together the key findings from all aspects of our digital auditing work over the preceding four years. In line with the scheduling of our other digital audit work we are proposing that this audit report early during 2023/24.

Source: Audit Scotland

Part 2 – work programme proposals for 2018/19 and 2019/20

Proposals for 2018/19 and 2019/20

11. Appendix 1 summarises the number and range of audit outputs Audit Scotland published on behalf of the AGS and Accounts Commission over the period 2013/14 to 2017/18. Appendices 2a and 2b provide more detail on the audit outputs published during 2017/18 and 2016/17 respectively.

12. This volume of activity has provided the AGS and Accounts Commission with a steady stream of published outputs that have had significant national and local impact and enabled the AGS to provide effective support to the Parliament's PAPLS[1] committee (and several other Parliamentary committees).

13. The work programme refresh proposals for 2018/19 and 2019/20 (Exhibit 3 on page 8) are based on a similar level of audit outputs and support from the Performance Audit and Best Value team. That is:

   - 11 (2018/19) / 11 (2019/20) performance audits (10 AGS, 3 Commission, 9 joint)
   - 4 x overview reports annually (2 x AGS, 2 x Commission)
   - 6/7 Best Value Assurance Reports annually (Commission)
   - 1 How Councils Work output annually (Commission)
   - 9 statutory reports annually (6x AGS, 3 x Commission)[2]
   - The National Scrutiny Plan and 32 local scrutiny plans annually (Commission)
   - 5-7 impact reports annually (AGS and Commission).

14. The proposed programme contains:

   - a balance of work across all three policy portfolio areas[3]: Health, care and communities (HCC); Justice, education and lifelong learning (JELL); Public finances, investment and economic development (PIE)

   - audit work that reflects the Commission's strategic audit priorities

   - new areas of audit activity (NPD), follow-up work (Broadband), and ongoing audit work in areas of longer-term strategic interest to the AGS and Commission (health and social care integration)

   - a range of small, medium and large audits (reflecting the nature and significance of the audit issues)

   - a range of programme development activity (e.g. briefings and Round Table events) alongside formal audit work

   - capacity to respond flexibly to emerging audit risks throughout the year.

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[1] This Committee was entitled the Public Audit Committee until the current session of the Parliament.
[2] Statutory reporting is reactive and responsive to emerging areas of concern and risk. Resources are earmarked within the resource plan to support this work in line with recent experience / cost.
[3] Policy clusters are the means by which audit and programme development activity is managed, and the policy landscape, including risks, monitored.

Exhibit 3

Proposed work programme options 2018/19 – 2019/20 (S = small, M = medium, L = large)

	2018/19	2019/20
Performance audits	• *Scottish fire and rescue service: follow up (AGS) (May 2018)* (M)* • *Forth replacement crossing (AGS) (June 2018)* (M)* • *Children and young people's mental health (Joint)** (L)* • *Health and social care integration part 2 (Joint)**(L)* • *Innovative financing – City Deals (Joint)** (M)* -- • Arms-length external organisations (ALEOs) (AC) (L) • Broadband follow-up (AGS) (S) • Community Justice (Joint) (S) • Managing Scotland's new financial powers (1) (AGS) (L) • NHS workforce (2) – community based workforce (AGS) (M)	• Community assets (Joint) (M) • VFM of non-profit distributing models (Joint) (M) • A9 dualling (AGS) (S) • Educational outcomes (Joint) (M) • Waste management (Joint) (M) • Housing (Joint) (M) • Higher education finance (AGS) (M) • Skills planning and investment (AGS) (M) • Managing Scotland's new financial powers (2) (AGS) (L) -- • *Digital progress in local government (Commission) (M) (reporting early 2020/21)**** • *Supporting Economic growth: the role of local authorities (Commission) (M) (reporting early 2020/21)****
	• *Digital in central government and health (AGS) (M) (reporting early 2019/20)****	
Overview reports	• NHS in Scotland (AGS) • Colleges (AGS) • Local government x2 (Commission)	• NHS in Scotland (AGS) • Colleges (AGS) • Local government x2 (Commission)
SRA	National scrutiny plan and 32 Local Scrutiny Plans (Commission)	National scrutiny plan and 32 Local Scrutiny Plans (Commission)
Best Value	6 x BVARs (Commission) • Dumfries and Galloway Council • East Ayrshire Council • East Lothian Council • Fife Council • Glasgow City Council • West Dunbartonshire Council	7 x BVARs (Commission)
Statutory reports	• S22 (x6) (AGS) • Section 102 (x3) (Commission)	• S22 (x6) (AGS) • Section 102 (x3) (Commission)
How Councils Work (HCW)	It is recommended that the Commission considers its overall approach to HCW reporting in early 2018 once it has had the opportunity to reflect on key themes arising from the first tranche of BVARs the last of which (Clackmannanshire Council) will be reported to the Commission in January 2018. It is assumed that one HCW audit will take place in 2018/19.	No HCW audits are currently included in the 2019/20 work programme pending the Commission's further consideration of its proposed strategy for future HCW activity in 2018/19. It is assumed that one HCW audit will take place in 2019/20.
Impact reports	• Community planning: a follow-up • Efficiency of Sheriff Courts • Higher education • Modern apprenticeships • Roads maintenance • Social work in Scotland • The role of Scotland's enterprise agencies	• Early learning and childcare impact and update • Equal pay in Scottish councils • NHS workforce planning (1) • Transport Scotland's ferry services • Self directed support (f/u)

* These audits were part of our 2017/18 programme but will be published in spring/summer 2018/19
** These audits were part of our 2017/18 programme but will be published in autumn/winter 2018/19
***These audits will intentionally straddle two years

15. Appendix 5 provides further information on the proposed scope of each of the proposed pieces of audit work.

16. Exhibit 3 on page 8 provides an indicative size for each of the proposed performance audits based on the audit objectives and planned audit impact set out in Appendix 5. It is important to note that the final size and indicative publication date for each audit will be approved by the AGS and the Commission once audit teams have concluded the scoping phase of each audit.

Planned programme development activity

17. An important aspect of our ongoing programme development involves the three policy clusters (HCC, JELL, PIE) discussing significant policy or performance-related developments across the public sector with the AGS and the Accounts Commission. Those discussions regularly highlight issues which either require further investigation or which the AGS or the Accounts Commission would like see considered as areas for future audit work as part of the work programme refresh process. Potential responses to a number of the key areas of interest raised by the Accounts Commission were discussed at its mid-year strategy seminar in September.

18. Based on the various programme development discussions which have taken place with the AGS and the Accounts Commission we are proposing to undertake the following specific pieces of development work during 2018/19 and 2019/20:

- Prepare a briefing paper for the Accounts Commission on UK and Scottish responses to the Grenfell Tower tragedy (to include any local authority emergency planning issues).

- Prepare a briefing paper for the AGS and the Accounts Commission on how rural issues are being considered by Audit Scotland as part of programme development activity and in local and national audit work.

- Prepare a briefing paper for the AGS and the Accounts Commission on the potential impact on Brexit for Scotland's public services, drawing on PIE cluster activity and the work of Audit Scotland's New financial powers and constitutional change audit programme.

- Prepare a briefing paper for the Accounts Commission highlighting the potential impact on local authorities of benefit changes arising from implementation of Scotland's devolved social security powers.

- Analyse the financial impact of reductions in funding for regulatory services as part of the 2018 local government overview reporting, with the option of undertaking more detailed audit work in this area in future years.

- Prepare a briefing paper for the AGS and the Accounts Commission on reducing child poverty, assessing early progress toward Child Poverty Bill 2017 improvement goals and highlighting any challenges or issues encountered to date.

- Hold a Housing Round Table with key external stakeholders to build our networks in this area and inform the scoping of the performance audit that is now proposed to take place in 2019/20.

- Prepare a briefing paper for the AGS and the Accounts Commission on public health (to cover the new public health agency and its role in addressing complex public health issues such as inequality of outcomes, the impact of complex social disadvantage on service use e.g. addictions).

- Take forward a range of development work relating to community empowerment with the Strategic Scrutiny Group. This includes establishing an advisory group to support activities and share learning, reviewing the LOIPS, producing blogs and briefings, and supporting teams to develop their understanding.

19. Much of this activity (e.g. community empowerment and housing) is developmental in its nature and will be used to help us better understand the nature of key policy developments or challenges and opportunities facing public bodies. This helps us ensure our work is well targeted and will add value. The outcomes of this activity will be reported through cluster briefings to the AGS and to the Accounts Commission's committees. Some programme development activity (e.g. Grenfell Tower and Brexit) will lead to specific programme development outputs (e.g. briefing papers) for consideration by the AGS and the Commission.

Programme resourcing (including the balance of proposed audit work between the AGS and the Commission)

20. The proposed programme contains a balance of AGS only, Commission only and joint work. Exhibit 4 shows how the indicative resources needed to deliver the work during 2018/19 reflect the overall balance of funding received by the AGS (47%) and the Commission (53%).

Exhibit 4

Work programme resource allocations 2018/19 (Auditor General and Accounts Commission)
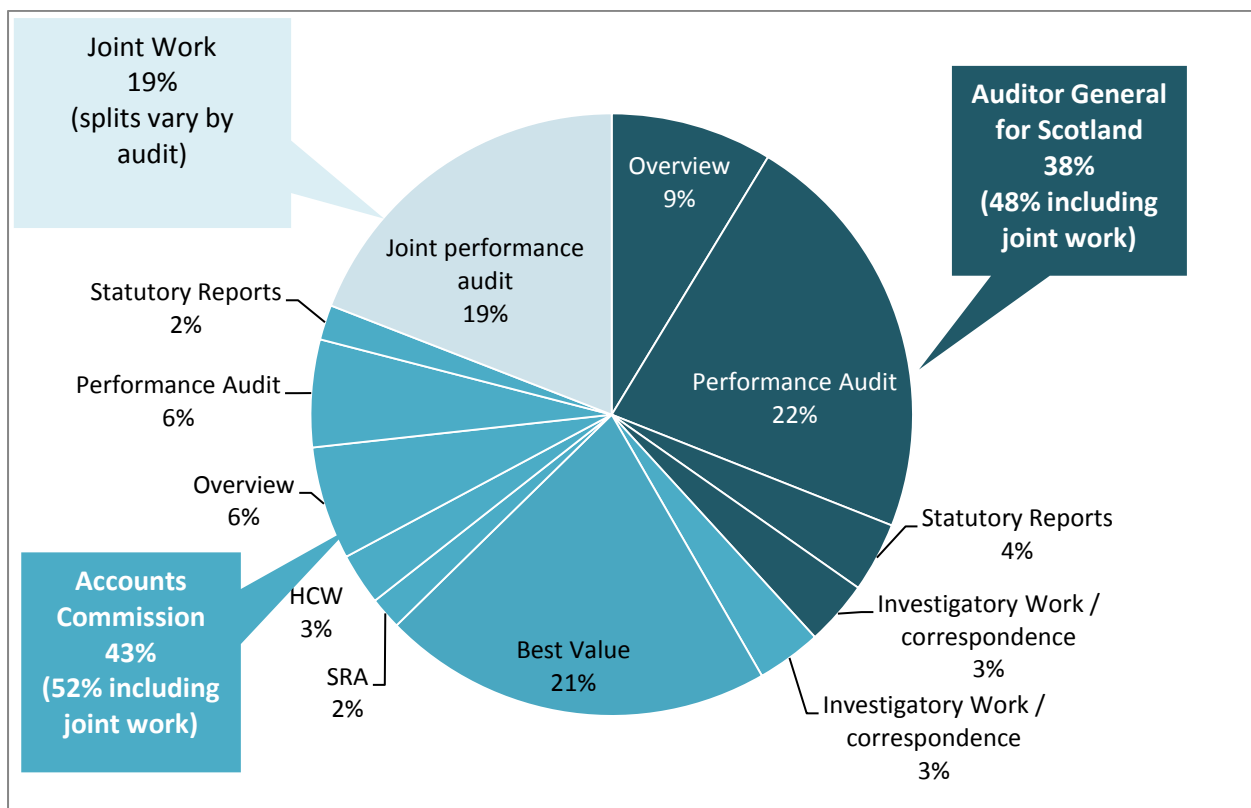
Source: Audit Scotland

21. Appendix 3 sets out the respective resource allocation analysis between the AGS and Commission for the two year period based on the current work programme refresh proposals.

Part 3 – Other issues

New financial powers and constitutional change

22. Scotland's finances are being transformed by the new financial powers for the Scottish Parliament. Scotland's budget is becoming increasingly complex and subject to greater uncertainty and volatility. There is also the prospect of further significant change as a result of EU withdrawal. These fundamental changes mean increased opportunities and risks for Scotland's public finances and public sector bodies. They also bring major new responsibilities for the Scottish Government and increasing interaction with the UK Government to implement and manage these changes.

23. In this environment, the role of public audit and independent scrutiny has never been more important. Audit Scotland, on behalf of the AGS and Accounts Commission, is committed to supporting the Scottish Parliament and others as devolution changes the landscape for public finances. We seek to support transparency and strengthen scrutiny of these changes through our work, including:

   - our audits of public sector bodies as they respond to the new landscape
   - taking a whole system perspective in our work, including the implications of newly devolved economic and fiscal policy responsibilities
   - sharing what we learn and our expertise to support implementation and improvement.

24. There will be significant developments through to 2021/22 that will have implications for our work. There are four areas in particular where our work is expected to increase:

   - audits of new bodies and accounts established as a result of increased devolution
   - reflecting fundamental changes in public financial management, including the introduction of a Scottish Exchequer
   - audit of implementation and transition across government (including social security changes)
   - organisational development to support our work in new areas.

How Councils Work (HCW)

25. Given the significance of the implementation during 2017/18 of the new approach to auditing Best Value, last December the Accounts Commission agreed to put its HCW programme on hold and use the intelligence arising from the first six Best Value Assurance Reports (BVARs) to inform future HCW activity.

26. To date, the Commission has published four BVARs (Inverclyde, Renfrewshire, East Renfrewshire, and West Lothian). The BVAR on Orkney Islands Council will be considered at the December Commission meeting and be published later that month, with the last of the first tranche of BVARs (Clackmannanshire Council) reported to the Commission in January 2018.

27. It is proposed that, rather than making decisions about future HCW reports in December, the Accounts Commission assesses its approach to future HCW work once it has had the opportunity to consider any key themes arising from the first tranche of BVARs, and the review of the first year of the new approach to Best Value audit in February 2018. This will involve a separate set of proposals being brought to a future Commission meeting in early 2018 specifically covering HCW. That paper would provide the Commission with an opportunity to not only identify potential topics for HCW reporting, but also reflect more widely on its future approach to HCW activity. Provision has been made within the work programme resource plan to deliver one HCW report during both 2018/19 and 2019/20.

Stakeholder engagement: promoting audit findings

28. The AGS and the Accounts Commission have a shared commitment to ensuring that the audit work that is undertaken on their behalf makes the most positive difference to public services and the way public money is used in Scotland. For that reason, we have invested significant time and effort over recent years to develop and implement a range of approaches to maximise the impact of our audit work. These include:

   - increasing use of web-based material (for example, the health and social care animation)
   - elected member, board member and officer checklists
   - service user, parent or carer summaries of audit findings
   - conference presentations
   - briefings and workshops for key national and local stakeholder groups
   - open access to audit-related performance data and analysis
   - local promotion strategies for Best Value audit reports.

29. Feedback from stakeholders on many of our recent developments (e.g. health and social care animation, Self-Directed Support 2 service user 'easy-read' document, Digital briefing and New financial powers material) have been very positive and we know that many audited bodies value direct engagement with audit teams to consider the local implications of national audit work. It is clear that this activity helps to raise the profile of the audit work, supports ownership of audit recommendations, and contributes to audits making a difference.

30. Given the resource requirements of undertaking this work we need to target our efforts effectively. This means giving careful thought to the relative cost and potential benefit of different approaches across the work programme and when identifying potential additional audit outputs and developing post-publication communication and engagement strategies for individual audits. The discussions that take place between audit teams, the AGS and Commission sponsors at key stages of each the audit are key to informing these decisions, and help to maintain an appropriate balance of promotional activity across the programme.

Stakeholder engagement: Parliamentary engagement

31. We have been implementing a more strategic approach to parliamentary engagement since the start of Session 5 of the Scottish Parliament. The new arrangements are designed to ensure that the work programmes of the AGS and Accounts Commission are informed by, and avoid duplicating the work of, parliamentary committees. The new arrangements also aim to ensure that our audit work supports effective parliamentary scrutiny that makes a positive difference to public services and the way public money is used in Scotland.

32. Feedback from the parliament on our engagement work has been positive and provides a strong foundation upon which to build in the context of the increased interest in strengthening parliamentary scrutiny of how well public finances are being used to deliver improved outcomes set out on the Budget Process Review Group report.

33. The most recent phase of our parliamentary engagement has involved considering feedback that the PAPLS committee has gathered from subject committees on topics that they feel could usefully be considered by the AGS or the Accounts Commission as part of their work.

34. Formal responses were received from five subject committees. The key themes that those committees raised were:

   - *Economy, Fair Work and Jobs Committee* - Scotland's economic performance

- *Environment, Climate Change and Land Reform Committee* - Climate change and environmental performance (including the performance of some key national agencies)

- *Equalities and Human Rights Committee* - Equality-related budget scrutiny

- *Health and Sport Committee* - Financial performance of the NHS (including the transparency of funding allocations)

- *Local Government and Communities Committee* - City Region Deals and housing

- *Social Security Committee* - the delivery of new social security powers.

35. Further work is needed to fully reflect on how best to respond to the various points raised by the Committees however it is clear that many of their areas of interest are already reflected in the AGS and Accounts Commission joint work programme. For example:

- Audit work on Scotland's new financial powers, including devolved social security arrangements

- support for parliamentary committees in relation to budget scrutiny

- performance audit work and portfolio monitoring on a range of economic-related areas (enterprise and skills, etc.)

- NHS financial performance reporting through the annual NHS overview report

- performance audits on City Region Deals and housing

- annual audit work on Scotland's main environmental bodies.

36. We will continue to engage with the Committees as part of our cluster work. The impact of our ongoing parliamentary engagement activity and its potential impact on the work programme will be routinely reported to the AGS, and to the Commission's Performance Audit Committee, as part of future cluster briefings.

Equality and diversity

37. It is important that we consider our obligations under the Equality Act 2010 as part of the work programme refresh to ensure that equality issues are given appropriate prominence across the full range of our audit work. Last year the AGS and Accounts Commission published several audit reports with a strong focus on the extent to which public bodies are addressing equalities, such as Equal Pay and Self Directed Support 2. Throughout 2017 Audit Scotland has also undertaken a wide range of equality related stakeholder engagement on behalf of the AGS and the Commission.

38. Once the AGS and the Accounts Commission have agreed the refreshed work programme we will consult with Audit Scotland's Equality and Human Rights advisory group (EHRAG). This advisory group is made up of a range of equality and human rights-related expert organisations. These include: the Scottish Equality Network, Enable Scotland. Stonewall Scotland, the Council of Ethnic Minority Voluntary Sector Organisations (CEMVO), Children 1st, the Scottish Inter-faith Council, Close the Gap, and Age Scotland.

39. We will use feedback from that consultation exercise to inform the preparation of a draft Equality Impact Assessment on the refreshed work programme. This will then be considered by Audit Scotland's corporate Diversity and Equality Steering Group (DESG). Once approved, the assessment will be published on Audit Scotland's website.

Fraser McKinlay
Director of Performance Audit and Best Value
29 November 2017

Appendix 1: outputs published on behalf of the AGS and Accounts Commission

Reports		Total
17/18 (planned)	7 performance audit, 8 Best Value (6 BVAR, 2 follow up), 4 overview, 11 'other'	30 reports (includes provisional statutory reports)
16/17	7 performance audit, 3 Best Value, 4 overview, 1 How councils work, 8 'other' (briefings and statutory reporting)	27 reports
15/16	7 performance audit, 6 Best Value, 3 overview, 1 Community Planning, 1 How councils work, 9 'other'	27 reports
14/15	6 performance audit, 4 Best Value, 6 Community Planning, 3 overview, 5 'other'	24 reports
13/14	11 performance audit, 5 Best Value, 3 overview, 2 How councils work, 2 'others'	23 reports
*includes 3 s22 reports in the FE sector completed during 16/17 but not laid before Parliament until April		

Appendix 2a: 2017/18 – published and planned

Month	Report
April	No reports published
May	Principles for a digital future
June	Inverclyde Council Best Value Assurance Report CAP Futures follow up Housing benefit annual update Scotland's colleges overview
July	NHS workforce planning
August	Self directed support follow up Renfrewshire Council Best Value Assurance Report
September	Equal pay in Scottish councils S22: Scottish Government consolidated accounts
October	S22: NHS Tayside Transport Scotland's ferry services NHS in Scotland overview
November	East Renfrewshire Council Best Value Assurance Report East Dunbartonshire Council audit of Best Value follow up West Lothian Council Best Value Assurance Report Financial overview of local government in Scotland 2016/17
December	Orkney Best Value Assurance Report (planned) S22: Scottish Police Authority (planned) S22: Non domestic rates account (planned)
January	S102 City of Edinburgh Council (provisional) S102 Dundee City Council (provisional) Falkirk Council audit of Best Value follow up (planned)
February	Clackmannanshire Council Best Value Assurance Report (planned) Early learning and childcare (planned) S102 Dunfermline flood prevention (provisional)
March	Local government in Scotland 2018 overview (planned) Managing new financial powers (planned) S22: Further Education (provisional x2)
Total = 30 outputs	**13 Auditor General, 15 Accounts Commission, 2 Joint**

Appendix 2b: 2016/17 - published

Month	Report
April	No reports due to election moratorium
May	CAP Futures programme City Deals – briefing paper
June	South Ayrshire Council audit of Best Value follow up
July	Higher Education Supporting economic growth
August	Maintaining Scotland's roads follow up Superfast broadband update Scotland's Colleges overview
September	Social work services in Scotland Scotland's new financial powers – briefing paper S22: Scottish Government consolidated accounts
October	Angus Council audit of Best Value S22: NHS24 S22: NHS Tayside NHS in Scotland overview
November	How Councils Work: roles and working relationships in councils Financial overview of local government in Scotland 2015/16
December	Falkirk Council audit of Best Value update East Dunbartonshire Council audit of Best Value follow up S22: Scottish Police Authority
January	No reports
February	Scotland's NHS workforce – briefing paper
March	Local government in Scotland overview S22: i6 Managing new financial powers S22: Lews Castle College (laid April) S22: Edinburgh College (laid April S22: Moray College (laid April)
Total = 27 outputs	**17 Auditor General, 8 Accounts Commission, 2 Joint**

Appendix 3: AGS and Accounts Commission indicative resource allocation (2018/19 – 2019/20) – Performance Audit and Best Value work

Auditor General for Scotland 2018/19	Size	Indicative budget (£,000s)
NHS in Scotland 2018	Overview	125
Scotland's colleges 2018	Overview	125
Broadband follow-up	Small PA	30
Managing Scotland's new financial powers series	Large PA	175
NHS workforce (2) – community based workforce	Medium PA	125
Scottish fire and rescue service follow up	Medium PA	125
Forth replacement crossing	Medium PA	125
Digital in central government and health (straddles 18/19 into 19/20)	Medium PA	62.5
Statutory reports x 6	Varies	108
Correspondence and investigatory work		100
Total		**1100.5**

Accounts Commission 2018/19	Size	Indicative budget (£,000s)
Best Value Assurance Reports x 6	BVAR	300
Other local government Best Value audit and intelligence activity	Various	304
Local government in Scotland: financial overview	Overview (small)	50
Local government in Scotland: performance and challenges	Overview	125
ALEOs	Large PA	166 (actual budget)
How Councils Work	HCW	80
Shared Risk Assessment (data analysis, Round Tables, Local Scrutiny Plans and National Scrutiny Plan)	SRA	50
Statutory reports x 3	Varies	54
Correspondence and investigatory work		100
Total		**1229**

Joint work (split varies depending on topic) 2018/19	Size	Indicative budget (£,000s)	AGS split	AC split
Children and young people's mental health	Large PA	175	122.5	52.5
Community justice	Small PA	75	48.75	26.25
Health and social care integration pt.2	Large PA	175	87.5	87.5
Innovative financing: City Deals	Medium PA	125	31.25	93.75
Total		**550**	**290**	**260**

Overall total 18/19: £2,879,500
AGS share 18/19: £1,390,500 (48%)
AC share 18/19: £1,489,000 (52%)

Auditor General for Scotland 2019/20	Size	Indicative budget (£,000s)
NHS in Scotland 2019	Overview	125
Scotland's colleges 2019	Overview	125
A9 dualling	Small PA	75
Higher education finances	Medium PA	125
Managing Scotland's new financial powers series	Large PA	175
Skills planning and investment	Medium PA	125
Digital in central government and health (straddles 18/19 into 19/20)	Medium PA	62.5
Statutory reports x 6	Varies	108
Correspondence and investigatory work		100
Total		**1020.5**

Accounts Commission 2019/20	Size	Indicative budget (£,000s)
Best Value Assurance Reports x7	BVAR	350
Other local government Best Value audit and intelligence activity	Various	304
Local government in Scotland: financial overview	Overview (small)	50
Local government in Scotland: performance and challenges	Overview	125
How Councils Work	HCW	80
Digital progress in local government (straddles 19/20 into 20/21)	Medium PA	62.5
Supporting economic growth: the role of local authorities (straddles19/20 into 20/21)	Medium PA	62.5
Shared Risk Assessment (data analysis, Round Tables, Local Scrutiny Plans and National Scrutiny Plan)	SRA	50
Statutory reports x 3	Varies	54
Correspondence and investigatory work		100
Total		**1238**

Joint work (split varies depending on topic) 2019/20	Size	Indicative budget (£,000s)	AGS split	AC split
Community assets	Medium PA	125	25	100
Educational outcomes	Medium PA	125	62.5	62.5
Housing	Medium PA	125	62.5	62.5
Value for money of non-profit distributing models	Medium PA	125	62.5	62.5
Waste management	Medium PA	125	31.25	93.75
Total		**625**	**243.75**	**381.25**

Overall total 19/20: £2,883,500
AGS share 19/20: £1,264,250 (44%)
AC share 19/20: £1,619,250 (56%)

Appendix 4: Proposed revised longer-term audit programme (2018/19 to 2022/23)

	2018/19	2019/20	2020/21 provisional	2021/22 provisional	2022/23 provisional
Audits of Best Value	6 BVARs (AC) • Dumfries and Galloway Council • East Ayrshire Council • East Lothian Council • Fife Council • Glasgow City Council • West Dunbartonshire Council	7 BVARs (AC) To be confirmed following the 2018/19 SRA process	7 BVARs (AC) To be confirmed following the 2019/20 SRA process	6 BVARs (AC) To be confirmed following the 2020/21 SRA process	End of five year appointment cycle. To be confirmed following 2021/22 SRA process
How Councils Work	• To be confirmed	• To be confirmed	• To be confirmed	• To be confirmed	• To be confirmed
Overview reporting	• Local government financial overview (AC) • Local government overview (AC) • NHS in Scotland (AGS) • Scotland's colleges (AGS)	• Local government financial overview (AC) • Local government overview (AC) • NHS in Scotland (AGS) • Scotland's colleges (AGS)	• Local government financial overview (AC) • Local government overview (AC) • NHS in Scotland (AGS) • Scotland's colleges (AGS)	• Local government financial overview (AC) • Local government overview (AC) • NHS in Scotland (AGS) • Scotland's colleges (AGS)	• Local government financial overview (AC) • Local government overview (AC) • NHS in Scotland (AGS) • Scotland's colleges (AGS)

	2018/19	2019/20	2020/21	2021/22	2022/23
Performance audits					
Devolution	• New financial powers and constitutional change (AGS)	• New financial powers and constitutional change (AGS)	• New financial powers and constitutional change (AGS)	• New financial powers and constitutional change (AGS)	• New financial powers and constitutional change (AGS)
Economy	• Innovative Financing - City Deals (Joint) • Forth replacement crossing (AGS)	• A9 dualling (AGS) • Value for money of NPD projects (Joint) • Supporting economic growth – role of local authorities (reporting early 2020/21) (AC)	• Supporting economic growth: impact of enterprise and skills review (AGS)	• Development of Scotland's new agriculture and fishing policy post Brexit (AGS) • Innovative Financing - City Deals (2) (Joint)	• Replacing structural funds (Joint)
Policy		• Community assets (Joint) • Educational outcomes (Joint) • Housing (Joint) • Skills planning and investment (AGS) • Waste management (Joint)	• Flood risk management (Joint) • Youth justice (Joint)	• Early learning and childcare series (Joint) • Housing (2) (Joint) • Social security (AGS)	
Public service reform	• ALEOs (AC) • Community justice (1) (Joint) • Health & social care integration: Part 2 (Joint)		• Health & social care integration part 3 (Joint)	• Community justice (2) (Joint)	
Performance and outcomes	• Children and young people's mental health (Joint)	• Higher education (finances) (AGS)	• Improving outcomes for looked after children (Joint)	• Outcomes for children with additional support needs (Joint)	• Mental health 3 (AC/AGS/Joint - to be agreed) • Progress in addressing child poverty (cross cutting) (Joint)

	2018/19	2019/20	2020/21	2021/22	2022/23
Skills and capacity	• NHS workforce(2) – community based workforce (AGS)		• NHS Workforce (3) (AGS) • Teacher workforce planning (NEW) (Joint) • Public sector workforce planning for skills post Brexit (Joint)		
Digital	• Digital progress in central government and health (reporting early 19/20) (AGS)		• Digital services (learning or justice) (reporting 2021/22) (AC/AGS/Joint - to be agreed)		• Digital progress across government (cross cutting) (NEW) (reporting 2023/24) (Joint)
		• Digital progress in local government (reporting early 2020/21) (AC)		Progress against digital strategy – 5 years on (reporting 2022/23) (AGS)	
Performance Audit follow up	• Scottish fire and rescue services (was 17/18) (AGS) • Broadband (AGS)		• Commonwealth Games legacy – six years on (Joint)		
Impact reports *Note*: impact report publication dates may change in response to significant policy developments that impact on audit recommendations and the final scheduling of the original audit work / report publication.	• Community planning: an update • Efficiency of Sheriff Courts • Higher education • Modern Apprenticeships • Roads Maintenance • Social work in Scotland • The role of Scotland's Enterprise Agencies	• Early learning and childcare impact and update • Equal pay in Scottish Councils • NHS workforce planning (1) • Transport Scotland's ferry services • Self directed support (f/u)	• ALEOs • Children and young people's mental health • Community justice • Innovative financing: City Deals • Primary and social care workforce • Scottish fire and rescue (f/up) • Forth replacement crossing	• A9 dualling • Community assets • Digital in central government and health • Educational outcomes • Higher education finances • Housing (1) • Skills planning and investment • Value for money of NPD projects • Waste management	• Digital in local government • Flood risk management • Improving outcomes for looked after children • Innovative financing – City Deals (2) • Supporting economic growth – role of local authorities • Youth justice

Appendix 5: Summary information on the proposed performance audits in the 2018/19 to 2019/20 work programme options

2018/19

Accounts Commission	Joint audit	Auditor General for Scotland
ALEOs *The Commission noted in its 2011 How Councils Work report [Arm's-length external organisations (ALEOs): are you getting it right?](#) that it is not always clear whether ALEOs have met their objectives. The Commission has also noted that whilst councils' governance of ALEOs is improving, there is still some variation across councils.* *This audit aims to provide public assurance over councils' use of ALEOs and the extent to which they are achieving their intended benefits. The audit will also help to share good practice and lessons learned between councils.*	**Children and young people's mental health** *Improving mental health and wellbeing is a major public health challenge for Scotland. The social and economic costs of mental ill health are high. One in eight children aged ten to 15 report symptoms of mental ill health, with most adult mental health problems first occurring in adolescence. Mental health problems in childhood and adolescence are also associated with poorer outcomes in later life.* *Our 2009 [Overview of Mental Health Services](#) report found that provision of specialist child and adolescent mental health services (CAHMS) varied considerably across Scotland, and that there was a lack of early intervention and preventative services. It also found evidence of children and young people waiting significant periods of time to access services.* *This audit aims to establish how effectively children and young people's mental health services are delivered and funded in Scotland. The audit will look at provision of services across all four tiers of CAHMS, including voluntary and private sector services where relevant. Throughout the audit we will engage with children and young people, as well as their parents and carers, about their views and experiences.*	**Broadband follow/up** *The rollout of superfast broadband continues to be of significant public and parliamentary interest.* *This follow up audit will comment on what has been achieved from the public sector's two contracts with BT (due to complete at the end of 2017). It will also review progress with the next stage of broadband development, including delivery of the Scottish Government's vision of world-class infrastructure by 2020, and 100 per cent superfast broadband coverage by 2021.*
How Councils Work *It is recommended that the Accounts Commission considers potential topics for future HCW reports in early 2018 once it has had the opportunity to reflect on key themes arising from the first tranche of Best Value Assurance Reports. The last of these (Clackmannanshire Council) will be reported to the Commission in January 2018.* *It is assumed that one How Councils Work will take place in 2018/19.*		**Digital in central government and health** *This is the first in a series of audits looking at high level performance against digital strategies, outcomes, leadership, and assurance and governance arrangements.* *This audit will look at the progress that the Scottish Government is making in delivering on its digital ambitions. This will include progress against the digital strategy, the impact of new assurance arrangements, and comparison of the approach and progress in the digital directorate in central government and the e-health directorate.*

Accounts Commission	Joint audit	Auditor General for Scotland
	City Deals *The Scottish Government considers City Region Deals as having a major role in driving the economy, boosting investment and innovation, and supporting inclusive economic growth. Around £2.3 billion has been committed in respect of the four City Region Deals agreed to date, with most councils actively involved in their development.* *The audit will review progress to date, with particular emphasis on governance and project management arrangements. A further City Deals audit is proposed for 2021/22 by which time some of the projects associated with each City Deal should be under way.*	**New financial powers and constitutional change** *Continues the series of reports looking at the devolution of New Financial Powers and associated constitutional change.*
	Community justice *Concerns over the previous community justice arrangements had been highlighted in a number of reports, including our 2012 report on Reducing reoffending in Scotland. The Community Justice (Scotland) Bill of 2015 introduced changes to the community justice model that came into effect in April 2017. Planning and delivery of community justice is now the responsibility of local community justice partners, operating within the context of wider community planning. The previous eight Community Justice Authorities have been abolished. A new national body, accountable to Scottish Ministers, called Community Justice Scotland has been established to provide oversight, monitor performance and promote good practice and awareness of community justice.*	**NHS Workforce part 2 – community based workforce** *We have reported on significant risks in current NHS workforce planning arrangements and that it is unclear what long-term impact health and social care integration, including the role of integration authorities, will have on the NHS workforce.* *This audit will involve more detailed audit work on the community based workforce, including its changing role, challenges and working arrangements, and provide an update on the first NHS workforce planning report.*

Accounts Commission	Joint audit	Auditor General for Scotland
	During the consultation on the new approach to community justice the Accounts Commission and Auditor General expressed concerns over the complexity of the proposed accountability arrangements. *This audit would be the first of two community justice audits, and will be a focussed piece of work providing an immediate assessment of the new arrangements at local and national level. The second stage would be a longer-term assessment of the impact of community justice reform, reporting in 2021/22.*	**Forth replacement crossing** *At a total cost of £1.3 billion, the Forth Replacement Crossing is the largest public sector major capital project in recent years.* *The audit will provide assurance on the project's management and delivery to cost and budget, whilst seeking to identify lessons for the management of other infrastructure investment projects.* *It will also include a high-level examination of how consideration of the residual use of the current bridge (i.e. how long it is anticipated to remain in use, for what purposes, and the associated cost of ongoing maintenance) was considered as part of the overall business planning for the new bridge.*

Accounts Commission	Joint audit	Auditor General for Scotland
	Health and social care integration part 2 *In December 2015, we published the [first]() of three national reports looking at the integration of health and social care. In the report we recognised that The Public Bodies (Joint Working) (Scotland) Act 2014 introduced a significant programme of reform affecting most health and care services, and over £8 billion of public money. The reforms are far reaching and have scope to address barriers to providing the right care for people closer to home.* *We also reported significant risks to the success of health and social care integration, including complex governance arrangements, difficulties in budget-setting and consequent delays in strategic planning.* *We will carry out a second audit in 2018, now that integration authorities are more established, to look at progress and to follow up on these risks. The audit will also examine changes to the system, including evidence of shifts in service delivery from acute to community based and preventative services, and the impact on the lives of local people.*	**Scottish Fire and Rescue Service** *This audit will follow-up on the recommendations made in the [2015 report](), and will provide an update on the progress made by the Scottish Fire and Rescue Service on its financial sustainability, its continued transformation to a national service and how effectively it is now performing.* *The audit will provide assurance to the Scottish Parliament and the public that the Service has appropriate arrangements in place to deliver its preventative and emergency responsibilities across Scotland. It will highlight good practice and lessons learned to support continued improvement across the Service.*

2019/20

Accounts Commission	Joint audits	Auditor General for Scotland
Digital progress in local government	**Community assets**	**A9 Dualling - option**
This audit will enable the Commission to focus on whether councils are making best use of digital technologies and methods to transform services and improve outcomes for citizens. This would include looking at the effectiveness of leadership and collaboration across councils.	*With the Strategic Scrutiny Group (SSG) we have undertaken a range of work to help develop our work on community empowerment, including: establishing an advisory group with scrutiny partners and external experts; learning and making connections; developing a broader understanding of the key issues and implications for scrutiny; and developing a coordinated approach to the scrutiny of community empowerment across all scrutiny bodies.* *We will review our progress in 2018 and provide an update to inform audit work planned for 2019/20. The audit will build on the ongoing joint development work with the SSG and will assess how organisations across the public sector are working with local communities to make best use of community assets, and the local impact of the Community Empowerment (Scotland) Act.*	*The dualling of the A9 trunk road is consists of 11 separate projects with a likely combined cost of around £3 billion once completed in 2025.* *This audit will consider the delivery to date of the projects within the overall dualling programme, including delivery to cost and time budgets, and governance arrangements, with a view to identifying learning points for subsequent projects.*

Accounts Commission	Joint audits	Auditor General for Scotland
Supporting economic growth: the role of local authorities *Building on our 2016 report on the role of the enterprise agencies in supporting economic growth, this audit will consider the issues and risks to other areas of the economic development landscape. This includes local economic development and regeneration activity in councils, and the role of the Business Gateway service.* *This is a topic which is of priority interest to the Commission. This will assume even greater significance as a consequence of the potential impact of Scotland's new financial powers on local government funding, and the increased emphasis that Scottish local authorities are placing on supporting economic growth as part of their efforts to create sustainable communities and address inequalities.*	**Educational outcomes** *This audit will follow up on our 2014 report on School education. Since then, the Scottish Government has identified improving educational outcomes and closing the poverty-related attainment gap as its top priority, and has committed to investing an additional £70 million to improve outcomes over the lifetime of this Parliament.* *The audit will look at trends in educational outcomes and spending across Scotland, and assess the impact of actions by the Scottish Government and councils to improve outcomes. It will also follow up on progress against the recommendations in our 2014 report.*	**Higher education financing** *This audit will follow up on the financial aspects of our 2016 report on higher education in Scottish universities In that report it was noted that the strong overall financial position masked underlying risks within the sector. Surpluses and reserves were concentrated in a small number of universities, with some heavily reliant on Scottish Government funding at a time when this is reducing.* *Universities were placing greater reliance on generating income from fee-paying students from the rest of the UK and outside the European Union (EU). The effects of Brexit will potentially affect this position.* *This audit will review the position based primarily on universities 2018/19 financial statements and information from the Scottish Funding Council.*
How Councils Work *It is recommended that the Accounts Commission considers potential topics for future HCW reports in early 2018.* *It is assumed that one How Councils Work will take place in 2019/20.*	**Housing** *The scope of this work is still to be decided and will be informed by the Round Table scheduled to take place during 2018/19., It is likely to focus on issues of housing supply and progress that has been made in delivering the Scottish Government housing action plan. It would follow up on the issues identified in the 2013 Housing in Scotland report in the context of the changed policy context and ambitious improvement targets that the Scottish Government has set in this area, in particular to increasing the supply of affordable homes.*	**New financial powers and constitutional change** *Continues the series of reports looking at the devolution of New Financial Powers and associated constitutional change.*

Accounts Commission	Joint audits	Auditor General for Scotland
	Value for money of NPD projects *Our last report on the use of private finance to fund public sector infrastructure investment was published in 2002. Private finance remains an important way to fund infrastructure investment, with nearly a third of capital projects by value (£2.3 billion out of £7.2 billion) which are currently underway being funded through non-profit distributing (NPD) models.* *This audit will use a case study approach to assess whether NPD has achieved its aim of curtailing excessive private sector profits. It will also assess the impact of the Office for National Statistics decision to classify NPD projects such as the Aberdeen West Peripheral Route as being subject to public sector control.*	**Skills planning and investment** *There have been some significant developments in this area in recent years, including the introduction of Skills Investment Plans, regionalisation of colleges, new foundation and graduate apprenticeships, and the Scottish Government's Enterprise and Skills Review.* *This audit will look at how the Scottish Government determines, in conjunction with relevant stakeholders, the role the public sector should play in anticipating and developing the skills needed for the economy and, more widely, society. It will consider how effective interventions have been and, potentially, the value for money of specific interventions.*
	Waste management *The overall aim of the audit will be to assess how well Scotland is performing in meeting its current and future waste management targets. It will consider the level of investment in new waste management facilities and the impact of the Scottish Landfill Tax on the levels of waste sent to landfill.* *The audit will follow up on previous reports on* Sustainable waste management *in 2007, and the 2010* Protecting and improving Scotland's environment *report.*	

ACCOUNTS COMMISSION

MEETING: 7 DECEMBER 2017

REPORT BY: SECRETARY TO THE COMMISSION

AUDIT QUALITY FRAMEWORK

Purpose

1. This report presents to the Commission the agreed Audit Quality Framework.

Background

2. At its meeting on 12 October 2017, the Commission considered a report by the Assistant Auditor General providing a progress update and areas for discussion and comment on the review of audit quality arrangements across all audit work. The Commission agreed to:

    • Endorse the draft Audit Quality Framework, subject to changes agreed in the discussion, to be addressed by the Assistant Auditor General in consultation with the Secretary to the Commission.

    • Note the changes to the management arrangements for quality, procurement and technical support.

    • Note progress on procurement of external assurance.

    • Endorse the initial key performance indicators to be provided through the biannual reports on quality to the Commission.

    • Note in this regard that further development of the key performance indicators would take place, with the Commission being apprised of progress as appropriate.

    • Note that further discussion between the Secretary and Assistant Auditor General would take place with regard to the role of ethics partner, including ethical advice in relation to, for example, non audit services, to be reported further to the Commission.

3. This final action is the subject of a separate report on today's agenda.

Content and publication of framework

4. The attached audit quality framework incorporates changes agreed by the Commission at its October meeting and discussed between the Assistant Auditor General and Secretary to the Commission.

5. The framework was subsequently approved by Audit Scotland Board on 25 October. It is to be published on Audit Scotland's website next week.

Conclusion

6. The Commission is asked to note the Audit Quality Framework.

Paul Reilly
Secretary to the Commission
1 December 2017

Audit Quality Framework

AUDIT SCOTLAND

BECOMING **WORLD CLASS**

November 2017

Contents

1. This Audit Quality Framework (the Framework) describes Audit Scotland's approach to achieving world-class audit quality across all audit work.

2. The Auditor General for Scotland (the Auditor General) and the Accounts Commission are responsible for appointing auditors to conduct the audits of bodies under their respective remits following a rigorous procurement process that is independent of the individual audited bodies. The Auditor General and the Accounts Commission therefore require independent assurance about the quality of the audit work. As set out in paragraph 13 of the Code of Audit Practice, Audit Scotland is responsible for providing support to the Auditor General and the Accounts Commission, including monitoring audit performance through quality appraisal. This Framework sets out how Audit Scotland provides the Auditor General and the Accounts Commission with robust, objective and independent quality assurance over the work of Audit Scotland and the firms.

3. The Framework provides clarity and consistency of approach for all users:

   - It helps explain the important role that audit quality plays in providing assurance on the use of public money; it highlights the impact of audit quality arrangements in demonstrating auditor performance, underpinning stakeholder confidence and driving continuous improvement.

   - For auditors, the Framework explains the structure and processes in place to assure audit quality and provides the necessary evidence that professional standards of quality have been achieved.

   - For the Auditor General and the Accounts Commission, the Framework recognises the fundamental importance of audit quality to their roles and the need to provide regular assurances to them through comprehensive reporting on audit quality and on auditor performance.

   - It encompasses a single set of shared quality arrangements that apply to all types of audit work.

4. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. This Framework helps drive Audit Scotland's vision for world-class audit. There are significant challenges ahead for public sector bodies, particularly in relation to financial constraints and the need to deliver service objectives with fewer resources. High quality external audits provide assurance, add value and can support audited bodies to achieve their objectives.

5. The Framework complements Public Audit in Scotland and the Code of Audit Practice 2016 (the Code).These documents require auditors to comply with the highest professional standards, including International Standards on Auditing (UK) and the Financial Reporting Council's Ethical Standard.

6. This Framework will help Audit Scotland measure audit quality and provide a strong evidence base through: greater use of Key Performance Indicators (KPIs)and introduce new

arrangements for external reviews of quality and application of the Financial Reporting Council's audit file grading system.

7. The Framework has been prepared in consultation with the Auditor General, the Accounts Commission, Audit Scotland staff and firms.

Audit Quality Framework

8. This Framework:

    •   applies to all audit work and providers

    •   extends the performance indicators of quality

    •   includes new in-year reporting arrangements

    •   provides for revised annual public reporting.

9. There are three core principles that underpin our commitment to quality:

    •   quality is embedded at all levels within the organisation engaged in the delivery of the audit

    •   quality will be assessed in terms of outputs, outcomes and where we have made a difference, as well as inputs and processes

    •   the approach to quality should drive continuous improvement for the public sector in Scotland.

10. The International Auditing and Assurance Standards Board (IAASB) states that: "Audit quality encompasses the key elements that create an environment which maximises the likelihood that quality audits are performed on a consistent basis." The IAASB further explains: "A quality audit is likely to have been achieved by an audit team that:

    •   exhibited appropriate values, ethics and attitudes

    •   was sufficiently knowledgeable, skilled and experienced, and had sufficient time allocated to perform the audit work

    •   applied rigorous audit processes and quality control procedures that complied with law, regulation and applicable standards

    •   provided useful and timely reports

    •   interacted appropriately with relevant stakeholders."

11. This Framework encompasses the key elements of the IAASB's Framework, together with the International Standard of Quality Control (ISQC1).

Lines of assurance

12. The model for audit quality in the public sector set out in this Framework includes three lines of assurance (Exhibit 1). There are arrangements in place at each level to provide assurance on the robustness of the quality control and monitoring procedures and how auditors combine knowledge and procedures in achieving audit quality.

Exhibit 1 – Lines of assurance

First	• Appropriately trained and supported individuals and audit teams covering all audit work.
Second	• Organisation-wide arrangements for quality control in accordance with ISQC1 and professional guidance.
Third	• Assurance activity undertaken by the Appointments and Assurance Team, who are independent of audit delivery.
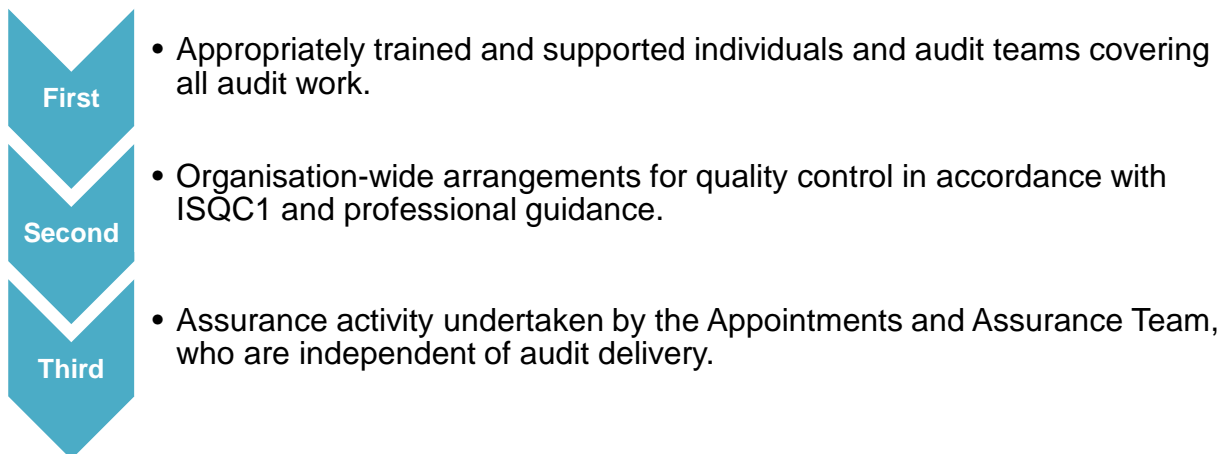
Source: Audit Scotland

Recommended practice

13. In addition to the requirements of ISQC1, auditors are expected to comply with the professional guidance for each of the components in the Framework. The Framework also takes account of the following:

- Framework for Audit Quality (IAASB – 2014)
- Audit Quality Framework (Financial Reporting Council (FRC) – 2008)
- Professional scepticism (FRC – 2012)
- Professional judgement framework for financial reporting (Institute of Chartered Accountants Scotland (ICAS) – 2016)
- Auditor skills in a changing business world (ICAS & FRC – 2016)
- Scope to improve quality control practices (FRC – 2017)
- Reports on findings from quality reviews by national and international audit regulators.

14. The structure set out in the IAASB's best practice arrangements have been adapted to encapsulate Audit Scotland's approach to quality, as shown in Exhibit 2.

Exhibit 2 – Audit Quality Framework

Audit Quality Framework

Inputs	Values, ethics and attitudes	Knowledge, experience and time	Audit process and quality control procedures		
Outputs	Reporting	Quality monitoring	Improvement feedback for auditors	Impact	
Key roles	Auditor General, Accounts Commission and Audit Scotland Board	Independent Appointments and Assurance team	Audit Scotland and appointed firms	Other Audit organisations and regulators	Client staff including those charged with governance
Regulation	Laws and regulations relating to financial reporting	Sector guidance and developments	Corporate governance, audit committees and audited bodies		

Source: Audit Scotland

Inputs

Values, ethics and attitudes

15. All auditors must comply with the [Financial Reporting Council's revised Ethical Standard 2016](#) to avoid any actual or perceived conflicts of interest.

16. To demonstrate compliance with the Ethical Standard:

- All Audit Scotland staff are required to complete and submit an annual 'fit and proper form' confirming their compliance with standards and bringing to attention any possible conflicts of interest. As part of this process, staff are required to confirm they have read relevant policy documents and are up to date with their professional training. Business group directors and compliance managers review all disclosures and safeguards are put in place to resolve any issues.

- Firms are required as part of their professional and contractual requirements to confirm their compliance with the Ethical Standard as part of their annual report submitted to the Appointments and Assurance Team (AAT) in Audit Scotland.

- The scope and value of any Non-Audit Services (NAS) which could compromise the auditor's independence is monitored by the AAT who scrutinise all applications to carry out NAS.

Knowledge, experience and time

17. All audit providers undertaking public sector audits in Scotland are committed to ensuring auditors have the necessary knowledge, experience and time to undertake their work. KPIs are used to monitor and report on the level of qualifications and training activity delivered by audit providers.

18. The Professional Support team provides technical guidance and support on new and emerging issues to all appointed auditors.

Audit processes and quality control procedures

19. Rigorous audit and quality control processes are in place across audit functions. All audit providers are responsible for establishing their own audit processes and quality control procedures in accordance with their professional requirements. The arrangements must ensure compliance with ISQC1.

20. All audit providers are required to submit a return to the AAT at the beginning of the five-yearly appointment, providing detailed information on how the auditor complies with ISQC1. Any changes to the arrangements during the appointment period are also reviewed by the team and followed up to assess compliance and report on any deviations.

21. In addition to regular technical and professional updates, auditors are expected to undertake a programme of internal 'hot' or coaching reviews of audit and performance work before the conclusion of the audit where necessary, in accordance with professional standards. These reviews are designed to support auditors by identifying and correcting any shortfalls in quality before the conclusion of the audit.

Outputs

Reporting

22. High-quality audit reports provide assurance to stakeholders on the subject matter of the audit and add value by making recommendations for improvement, identifying risks to service performance, increasing insight and facilitating foresight.

23. The AAT reviews reports produced to assess the quality of these reports and to monitor timeliness, scope and clarity of recommendations. The AAT will also undertake focussed thematic studies following these reviews where an area of concern has been identified.

Quality monitoring

24. Quality monitoring is undertaken in accordance with ISQC1 for financial audits and the International Organisation of Supreme Audit Institutions (INTOSAI) standards for performance and Best Value audits. Such reviews are called 'cold' reviews. The results of these reviews are used to ensure that lessons are learned and to continuously improve processes and methodologies.

25. The quality monitoring regime includes both internal and independent external cold reviews of samples of all types of audit work to provide direct assurance over audit work commissioned

by the Auditor General and the Accounts Commission. The results of internal cold reviews are reviewed and reported on by the AAT; external cold reviews are carried out by an external provider commissioned by Audit Scotland.

26. The FRC file-grading system is applied to the assessment of audit quality. The single grading regime aids consistency and comparability across all audit work commissioned by the Auditor General and the Accounts Commission.

27. The outcomes from all reviews are assessed by the AAT to ensure appropriate standards are met. These are reported to the Auditor General and the Accounts Commission and a summary is included in the published Audit Quality annual report, together with associated targets and KPIs which set performance in the context of previous years and comparable organisations.

Improvement feedback for auditors

28. Auditors are supported in learning from the results of the quality review procedures. The findings from external cold reviews are discussed with auditors to identify and support improvement where necessary.

Impact

29. The Code of Audit Practice makes clear that auditors must ensure that audit work adds value to the public sector in Scotland. The audit approach takes into account the feedback sought and received from stakeholders on the issues that should be addressed and the added value of audit work. Consideration of the application of the Code's wider scope dimensions is also included within the independent external assurance reviews carried out and the results are included in the Audit Quality annual report which assesses both the quantitative and qualitative impact of audit work.

Key roles

30. Individuals directly and professionally responsible for leading the day-to-day delivery of audit work have key responsibility for audit quality within their job descriptions. Appointed auditors, engagement leads and assistant directors work within a clear organisational structure and set of arrangements for quality control and assurance.

Auditor General and Accounts Commission

31. The Auditor General and the Accounts Commission are responsible for appointing auditors to conduct the financial audits of bodies under their respective remits following a rigorous procurement process that is independent of the individual audited bodies. The Auditor General and the Accounts Commission also publish performance audits in their own names: they approve the scope of the work and the final reports based on the work carried out by Audit Scotland.

32. The quality of audit work undertaken on behalf of and for the Auditor General and the Accounts Commission is of fundamental importance to their roles.

33. As commissioners of audit work, the Auditor General and the Accounts Commission obtain assurance from the independent AAT that the work of Audit Scotland engagement leads and assistant directors and firms of appointed auditors is of appropriate quality.

34. The Auditor General and the Accounts Commission Committees receive biannual reports on audit quality from the AAT. The Accounts Commission uses these and the draft Audit Quality annual report to inform its public reporting to its stakeholders on quality through the Accounts Commission's Annual Report.

Audit Scotland Board and Audit Committee

35. The Audit Scotland Board has overall responsibility for the strategic direction of the organisation and for approving significant policies. This Framework is approved by the Board, together with the Audit Quality annual report, which forms part of the overall framework of assurances provided annually by management to those charged with governance.

36. The governance role exercised by the Board and its audit committee over the Audit Quality Framework provides assurance to the Auditor General and the Accounts Commission, as commissioners of audits, on the quality of work carried out by Audit Scotland staff and firms of appointed auditors. The committee's remit includes advising the Board on the arrangements for audit quality monitoring and reporting and it receiving a biannual report on quality and considering the Audit Quality annual report prior to approval by the Board.

Management Team

37. Management Team, along with the Board, sets the tone at the top to ensure that auditors recognise their responsibilities within the Framework. Management Team has the executive responsibility for establishing arrangements to ensure that audit outputs are of a sufficient quality standard.

Appointments and Assurance Team

38. The AAT provides assurance on audit quality. It is independent from auditors undertaking audits and supports the implementation of this Framework across all audit work and providers. The team is led by an assistant director who reports directly to the Chief Operating Officer to maintain independence and compliance with professional ethics. The team use the sources of assurance in paragraph 39 to form an opinion on the quality of audit being delivered and provide regular update reports to Management Team. The responsibilities of this team include:

- developing the Code of Audit Practice and related guidance on the wider scope of public audit

- advising the Auditor General and Accounts Commission on audit appointments, procuring audit services and contract management

- conducting thematic reviews and reviewing auditor outputs to contribute to quality assessments

- supporting Audit Scotland's ethics partner and providing advice and guidance to staff, firms, the Accounts Commission and the Auditor General on ethical standards issues in accordance with FRC's revised Ethical Standard 2016

- ensuring NAS work is appropriate and compliant with [FRC's revised Ethical Standard 2016](#)

- maintaining the Audit Quality Framework

- preparing the Audit Quality annual report and in-year reporting to the Management Team, Audit Scotland Audit Committee and Board, Auditor General and Accounts Commission

- overseeing the programme of external quality control and monitoring the results of the reviews undertaken in line with ISQC1 by both Audit Scotland auditors and appointed firms

- managing and reporting on the independent external assurance programme

- maintaining the KPIs for quality including specifying the range of KPIs required

- liaising with Audit Scotland's internal Audit Quality Committee

- managing client and stakeholder feedback and reporting results

- carrying out quality reviews, on an exception basis, if serious issues of concern arise.

39. The AAT will obtain assurance from the following sources:

- reports on auditors' internal quality monitoring results

- results of KPIs

- results from independent external quality assurance

- FRC annual reports on individual firms

- annual assurance reports provided by firms and output of the Audit Quality Committee

- own direct work including reviews of outputs, stakeholder feedback and thematic reviews.

Professional Support team

40. Audit Scotland's Professional Support team is led by an assistant director who reports to the Director of Audit Services. It provides a centre of excellence for world-class support arrangements for auditors covering all sectors, providers and products. The team's responsibilities include:

- promoting continuous improvement across all audit work including the identification of good practice and areas for improvement

- supporting external professional relationships and representation on external bodies to enable public audit consideration of new developments

- preparing guidance to supplement the Code on the application of auditing and accounting standards to the public sector for use by all audit providers to inform their judgement and maximise consistency, confidence and impact of audit delivery.

Audit Quality Committee

41. The Audit Quality Committee forms part of the internal arrangements within Audit Scotland for quality assurance and continuous improvement across all audit work performed by Audit Scotland staff. The committee includes representatives from the Audit Services Group and Performance Audit and Best Value Business Group. The Audit Quality Committee's remit

includes responsibility for oversight of the quality control programme which forms part of the second line of assurance shown in Exhibit 1 for work undertaken by Audit Scotland.

Appointed firms

42. Appointed firms are responsible for implementing their own audit quality arrangements in compliance with ISQC1 and their professional regulator's requirements, and for publishing annual Transparency Reports. Additional independent quality assurance reviews of public sector audits are carried out by the body appointed by Audit Scotland. The results of these reviews are reported to the Auditor General and Accounts Commission and summarised in Audit Scotland's Audit Quality annual report.

43. Firms are required to produce an annual report on work completed in the year and submit this to the AAT for review. This is used to inform the overall assurance included in the Audit Quality annual report.

44. Audit Scotland and the firms collaborate in order to coordinate coverage of the wider scope audit responsibilities as outlined in the Code. Audit firms are expected to engage with Audit Scotland in regular dialogue through meetings and organised events to share current issues and good practice.

Regulation

45. The Framework is based on the laws and regulations relating to financial reporting and includes good practice within the IAASB 2014 Framework for Audit Quality as detailed in paragraph 10 of this report.

46. Public sector specific accounting and auditing guidance is prepared by Professional Support and disseminated to all auditors and audited bodies to encourage consistency and delivery of high quality audits.

47. Paragraph 13 of this document highlights the statutory and recommended practice requirements for corporate governance of audit quality that have been considered when developing this Framework.

Reporting

48. Firms are required to follow the Statutory Auditors (Transparency) Instrument 2008 published by the FRC. Audit Scotland prepares an Audit Quality annual report to meet the requirements of this Instrument on a voluntary basis.

49. Audit quality forms part of Audit Scotland's regular performance monitoring arrangements including reporting on a number of KPIs. The AAT has responsibility for preparing biannual reports on audit quality for the Audit Scotland audit committee, the Auditor General and the Accounts Commission and an Audit Quality annual report. The reports form part of the evidence available to the Accountable Officer in the preparation and approval of the Governance Statement prior to the sign-off of the Annual Report and Accounts. They also inform the Accounts Commission's reporting on audit quality through its annual report.

50. The Audit Quality annual report describes the governance arrangements in place and draws together an overview of the quality arrangements and the results of the quality monitoring and review processes in compliance with this Framework.

51. The Audit Quality annual report is considered by the Audit Scotland Board and the Accounts Commission annually prior to finalisation. The Board and the Accounts Commission have the opportunity to consider effectiveness of the Framework in ensuring expected quality standards are achieved and whether the findings in the report are consistent with feedback from stakeholders and other intelligence received by members from their wider governance capacity.

Appendix: World-class audit

52. The 2015-18 Corporate Plan sets out the vision to be a world-class audit organisation that improves the use of public money. There are six components of this world-class ambition (Exhibit 3).

Exhibit 3 – World-class components
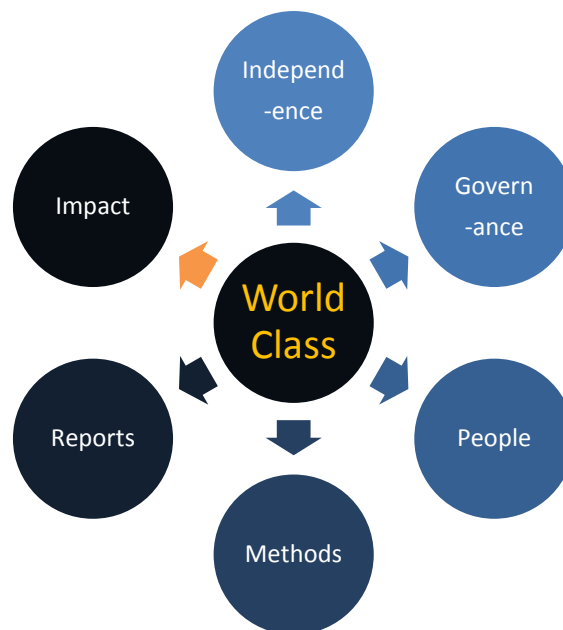
Source: Audit Scotland

53. The following section sets out how the Framework contributes to achieving the components of our world-class ambition.

Independence

54. Independence underpins the approach to audit quality. The Auditor General and the Accounts Commission are independent of the audited bodies within their remits. Audit appointments are only made after consideration of actual or potential conflicts of interest. Any proposed NAS work is considered carefully in line with the FRC's revised Ethical Standard 2016 and taking into account the wider scope of public audit before approval is given. This is supplemented by the Audit Scotland policy on the provision of NAS by Audit Scotland's external auditor, which requires any work undertaken to be notified to the chair of the Audit Committee in advance of the work being undertaken.

Governance

55. The Framework sets out the arrangements for governance of audit quality. It reflects important changes which strengthen the previous arrangements for scrutiny of audit quality by the Auditor General, the Accounts Commission, including regular reporting to the Audit Committee and the Audit Scotland Board. The arrangements for governance are described and evaluated annually in the published Audit Quality annual report.

People

56. The Framework recognises the vital importance of staff in building and maintaining a 'culture of quality'. The approach includes supporting staff in:

- getting it right first time
- recruiting and retaining high-quality staff
- accessing learning opportunities
- keeping skills and knowledge up to date
- demonstrating professional scepticism and application of sound judgement.

Methods

57. The approach to audit quality recognises the need to be sufficiently flexible to develop new ways of working that will improve efficiency and effectiveness, to support continuous improvement and provide a focus on value for money. The Framework also ensures our approach to audit quality:

- is integrated across all audit work
- is compliant with relevant International Standards for auditing and performance work
- is consistent and proportionate
- includes meaningful performance indicators.

Reports

58. By following the Framework, auditors are expected to be able to produce reports that are:

- quality assured through independent reviews that are evidence based
- compliant with the Code and regulations
- timely, add value and create impact.

59. Reports on the results of the quality control and monitoring arrangements described in this Framework will be:

- balanced and transparent, while identifying good practice and areas for improvement
- comparable across Audit Scotland business groups and firms
- used to drive continuous improvement.

Impact

60. The components of the approach to quality, which will demonstrate impact, include:

- internal and external assessments of quality across the organisation which will use a consistent scale so that the results are comparable

- a suite of KPIs of quality which will be monitored and published

- stakeholder satisfaction – Parliamentarian and other stakeholder feedback will inform the assessment of quality and be used to identify areas for improvement

- clearer analysis of the impact resulting from financial and performance audits, including the application of the wider audit dimensions included in the Code.

ACCOUNTS COMMISSION ✓

MEETING: 7 DECEMBER 2017

REPORT BY: SECRETARY TO THE COMMISSION

ETHICAL ADVICE

Purpose

1. This report proposes to the Commission how it sources ethical advice, both in relation to the Financial Reporting Council Ethical Standard and the Ethical Standards in Public Life Framework.

Background

2. At its meeting on 12 October 2017, the Commission endorsed the new audit quality framework. In doing so, it noted that further discussion between the Secretary and Assistant Auditor General would take place with regard to the role of Ethics Partner, including ethical advice in relation to, for example, non-audit services, to be reported further to the Commission. This paper reports on those discussions.

3. The paper recognises that the Commission needs support in relation to, firstly, the Financial Reporting Council (FRC) Ethical Standard, which specifies ethical requirements of auditors in both the private and the public sectors; and secondly, the Ethical Standards in Public Life Framework, which sets out the requirements of the ethical conduct of members of the Accounts Commission.

Ethical Standard and Ethics Partner

4. Ethical and audit engagement standards are issued by the FRC for auditors in the private sector. The FRC states that these also apply to "public sector financial statements audits in the UK including those carried out for the national audit agencies". The FRC notes that while "the standards governing the conduct and reporting of financial statements audits are a matter for the national audit agencies to determine…. the heads of the agencies in the UK have chosen to adopt the ethical, engagement and quality control standards issued by the FRC for audits as the basis of their approach to the audit of financial statements.)"[1]

5. The 2016 Code of Audit Practice approved by the Commission and the Auditor General requires auditors appointed by them – thus Audit Scotland and the appointed firms - to carry out their audits in accordance with those standards as a term of their appointment.

6. The FRC Ethical Standard sets out that the firm (including for this purpose Audit Scotland) shall designate an individual possessing the necessary seniority, relevant experience, authority and leadership levels (the 'Ethics Partner') as having responsibility for ensuring the firm's compliance with the requirements of the Ethical Standard.[2]

7. At its meeting on 13 November 2014, the Commission agreed as a matter of policy to adopt the principles of the FRC standards, particularly the Ethical Standard, to its own work. The Commission took the view that whilst it has appointed the local auditor and

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[1] Financial Reporting Council, Scope and Authority of Audit and Assurance Pronouncements, March 2013.

[2] Financial Reporting Council, Ethical Standard 2016.

thus does not carry out financial statements audits, it does publish performance audit reports in its own name and issues findings on reports by the Controller of Audit that it considers, and thus it is acting as an auditor in relation to performance audits and as a significant element of the overall audit process when it issues findings.

8. The Ethical Standard recognises that "in the public sector the statutory scope of the audit can extend beyond financial statements to include reporting on arrangements for the proper conduct of [an audited body's] affairs, management of its performance or use of its resources".[3] Nevertheless, the Standard is strongly based around the core work being a statutory audit of financial statements, and thus strictly speaking the "audit" role of the Commission does not fall within the technical definition. Consequently, there is no requirement for there to be an Ethics Partner as defined in the Ethical Standard. It is, however, sensible for the Commission to acknowledge the relevance and importance of the Ethical Standard and be aware that it does apply to all of their appointed auditors including Audit Scotland staff.

9. The Assistant Auditor General has for a number of years provided the Commission with advice on matters relating to the FRC Ethical Standard. The new audit quality framework – elsewhere on today's agenda - sets out that the Director of Audit Services will now be the Ethics Partner for Audit Scotland (as an auditor, as discussed in paragraph 5 above). This is a sensible arrangement given the requirements around seniority and experience as discussed in paragraph 6 above, and it broadly reflects what one would expect to see in audit firms. This arrangement is however less fitting for the Commission given its role of procuring the audit, its need for assurance around the quality of the audit done by auditors, and its requirements around the independence of the audit (discussed in paragraph 12 below). It would therefore seem sensible that this role be fulfilled in another way.

10. As a result of the review of audit quality arrangements, Audit Scotland has revised its structure to establish an Appointments and Assurance Team (AAT), led by an assistant director. The audit quality framework sets out that the AAT is to:

    • provide independent assurance on audit quality and support the implementation of the framework across all audit work and providers

    • provide advice and guidance to the Accounts Commission and the Auditor General on ethical standards issues in accordance with FRC's revised Ethical Standard 2016.

11. In the AAT, therefore, there is the opportunity for the Commission to have a source of independent ethical advice which addresses any potential conflict of interest around its role and relationship with auditors – either actual or perceived – as indicated in paragraph 10. It is therefore proposed that the Assistant Director, Appointments and Assurance fulfil such a role. In doing so, the Assistant Director can still liaise when appropriate with Audit Scotland's Ethics Partner, for example around technical issues associated with the Ethical Standard; and with the Commission Secretary, on matters associated with reputational risk to the Commission. Most importantly, however, it is the Assistant Director who is acting as the advisor to the Commission in this regard.

Non-audit services

12. Auditors can carry out additional work for an audited body beyond the audit. This is defined in the Ethical Standard as non-audit services. Non-audit services represent a risk to the quality and independence of the audit, for example around self-interest or self-

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[3] Financial Reporting Council, Ethical Standard 2016, Paragraph I1

review. The Ethical Standard sets limits on what work auditors can do, and how much they can do.

13. The audit quality framework sets out that independence underpins the approach to audit quality. The Accounts Commission and Auditor General are independent of the audited bodies within their remits. Audit appointments are therefore only made by the Commission and Auditor General after consideration of actual or potential conflicts of interest. Accordingly, auditors must seek agreement from the Commission or Auditor General to undertake such non-audit services. Any proposed non-audit services need to be considered carefully in line with the FRC Ethical Standard and taking into account the wider scope of public audit before approval is given.

14. The audit quality framework sets out that one of the responsibilities of the AAT is ensuring that non-audit services are appropriate and compliant with the FRC Ethical Standard. It would seem sensible, therefore, that if the Assistant Director, Appointments and Assurance is to be designated as the source of independent advice to the Commission on matters in relation to the Ethical Standard, the Assistant Director can also fulfil the Commission's interest in approving applications for non-audit services. It is proposed, therefore, that the Commission formally delegates responsibility to the Assistant Director to consider such requests and approve them on the Commission's behalf.

15. Part of this delegation will be a responsibility for the Assistant Director to:

- Liaise with the Commission Secretary where appropriate to discuss matters relating to reputational risk of the Commission.

- Report to the Commission twice a year on how such requests have been dealt with (this is in line with the commitment in the audit quality framework that the AAT will report the number and value of requests for non-audit services to the Commission).

Standards Officer

16. The Commission is subject to the Ethical Standards in Public Life framework.[4] Part of this framework is the requirement to have a Standards Officer. The role of the Standards Officer is, in summary:

- Promoting and maintaining high standards of conduct through advice, support and training to members on the Ethical Standards framework, including the Members' Code of Conduct

- Maintaining an approach to registering of interests

- Having an investigatory role if local resolution is attempted in respect of complaints or concerns made about a member's conduct, or if this fails, reporting any breach to the Commissioner for Ethical Standards in Public Life in Scotland

- Acting as the principal liaison officer between the Commission, the Ethical Standards Commissioner and the Standards Commission in connection with any

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[4] The Ethical Standards in Public Life framework was established by the Ethical Standards in Public Life etc. (Scotland) Act 2000 to ensure that the highest standards of behaviour were maintained by local authority councillors and members of certain public bodies, including the Accounts Commission. The framework consists of a Code of Conduct, the Standards Commission for Scotland (to hold hearings into alleged breaches of the Codes), and what is currently known as the Commissioner for Ethical Standards in Public Life in Scotland (to receive and investigate complaints about non-compliance).

complaints against a member of the body in relation to the Ethical Standards Framework. [5]

17. At its meeting on 9 June 2016, the Commission agreed to designate the Secretary to the Commission as Standards Officer.

18. As noted in paragraph 7, at its meeting on 13 November 2014, the Commission agreed as a matter of policy to adopt the principles of the FRC standards, particularly the FRC Ethical Standard, to its own work. In doing so, the Commission agreed to modify its Member Code of Conduct to reflect requirements of the FRC Ethical Standard. Any modification of the member code requires approval by Scottish Ministers. The Commission's proposal remains under discussion with the Local Government Minister and with the Commissioner for Ethical Standards, as there are matters to be resolved about enforcement of any modified Code.

19. Meantime, however, given the Commission's desire to at least act within the spirit of the FRC Ethical Standard which is to be reflected in its Member Code of Conduct, there will likely be substantial liaison between the Secretary in his role as Standards Officer and the Assistant Director, Appointments and Assurance in her role as a source of advice to the Commission on the FRC Ethical Standard

Conclusion

20. The Commission is asked to:

   a) Agree not to designate an Ethics Partner for the Commission

   b) Agree that the Assistant Director, Appointments and Assurance, be designated as the source of advice to the Commission on the FRC Ethical Standard

   c) Agree to delegate to the Assistant Director, Appointments and Assurance, to consider for approval requests for non-audit services on the Commission's behalf, liaising with the Commission Secretary as appropriate and reporting to the Commission twice a year on how such requests have been dealt with

   d) Note the role of the Commission Standards Officer and the link with the FRC Ethical Standard, and thus the likely collaboration with the Assistant Director in this regard.

Paul Reilly
Secretary to the Commission
1 December 2017

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[5] Standards Commission, 2015, Advice note on the role of a standards officer

ACCOUNTSCOMMISSION ✓

MEETING: 7 DECEMBER 2017

REPORT BY: SECRETARY TO THE COMMISSION

BEST VALUE ASSURANCE REPORT: ORKNEY ISLANDS COUNCIL

Purpose

1. The purpose of this paper is to introduce for the Commission's consideration the Controller of Audit's Best Value Assurance Report for Orkney Islands Council.

Background

2. The attached Best Value Assurance Report is the fourth report presented to the Commission under the new approach for auditing Best Value. A key objective of the new approach is to allow the Commission to provide more regular assurance to the public about how councils are performing in relation to their Best Value statutory duties.

3. It is intended that this will be achieved by the Controller of Audit submitting a Best Value Assurance Report on each council at least once during the five-year audit appointment and also by Best Value being reported in annual audit reports.

4. The Controller of Audit's report refers to the conclusions and recommendations in the appointed auditor's 2016/17 Annual Audit Report. This is also attached.

Previous reports

5. The Commission last published a Best Value report on the council on 5 June 2008. The Commission's findings in this regard are set out in the Appendix.

The Controller of Audit report

6. The Best Value Assurance Report is made by the Controller of Audit to the Commission under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).

7. The legislation enables the Controller of Audit to make reports to the Commission with respect to:

   - the accounts of local authorities audited under the Act;

   - any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public; and

   - the performance by a local authority of their statutory duties in relation to best value and community planning.

8. A copy of the report is being sent to the Council, which is obliged to supply a copy to each elected member of the Council and to make additional copies available for public inspection. Once the Controller of Audit's report is sent to the Council it is effectively in the public domain.

9. The report concludes with a series of recommendations proposed by the Controller of Audit which are to be part of the Commission's considerations.

Procedure

10. The legislation provides that, on receipt of a Controller of Audit report, the Commission may do, in any order, all or any of the following, or none of them:

    - direct the Controller of Audit to carry out further investigations

    - hold a hearing

    - state its findings.

11. Findings may include recommendations and the persons to whom those recommendations may be made include Scottish Ministers, who have powers to make an enforcement direction requiring an authority to take such action as is specified in the direction.

12. Members of the audit team will be present at the Commission's meeting and will be available to answer questions on the evidence and judgements presented in the report. This is done in the public part of the Commission meeting.

13. The Commission is then expected to consider in private how it wishes to proceed. Subsequently, the Commission is obliged by statute to inform the council of its decision, which the Commission does before making the decision public.

Conclusion

10. The Commission is invited to:

    a) consider the Controller of Audit's Best Value Assurance Report on Orkney Islands Council; and

    b) decide in private how it wishes to proceed.

Paul Reilly
Secretary to the Commission
29 November 2017

APPENDIX

AUDIT OF BEST VALUE AND COMMUNITY PLANNING: ORKNEY ISLANDS COUNCIL

COMMISSION FINDINGS

1. The Commission accepts this report on the performance of Orkney Islands Council's statutory duty to secure Best Value and to initiate and facilitate the community planning process. The Commission recognises that the report gives a broad picture of the council's performance based on the work of Audit Scotland and the findings of other scrutiny bodies such as Inspectorates and that it does not attempt a comprehensive review of all service delivery. We acknowledge the co-operation and assistance given to the audit process by members and officers of the council.

2. The Commission recognises the challenges faced by Orkney Islands Council arising from its remote and dispersed geography. We acknowledge the council's good leadership and its performance in a number of areas, and the innovative approach which it has adopted in response to its circumstances, in particular in its partnership arrangements with NHS Orkney and its joint working with community councils.

3. We particularly welcome:

- the council's level of self awareness

- its culture of openness

- the extent of community engagement

- the council's financial planning and sustainability.

4. With regard to areas where the council needs to make progress we would highlight the following:

- The council needs to adopt innovative approaches to building capacity, particularly to support corporate functions.

- There is a need for effective corporate performance management arrangements.

- The community and corporate plans need to be supported by clear action plans with specific, measurable targets and milestone dates.

- A number of the basic systems and processes to support and demonstrate Best Value are not yet in place.

5. The Commission notes that the council carries out benchmarking with the other islands councils and would encourage it to benchmark with a wider range of councils, to enable benefits to be achieved from best practice elsewhere in Scotland. We look forward to receiving an improvement plan with measurable and achievable outcomes, which will build on the good work being done by the council.

5 June 2008

Orkney Islands Council

Best Value Assurance Report

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees

- assessing the performance of councils in relation to Best Value and community planning

- carrying out national performance audits to help councils improve their services

- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about-us/accounts-commission

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Key facts

Land mass
across 70 islands

390 square miles

Budget gap
2017/18 - 2021/22:
Best scenario – £8m
Worst scenario – £16m

£12 million

21,850 Population

2016/17 capital budget

£24 million

1,523 Council workforce
(number of full-time equivalent employees)

2016/17 revenue budget

£82.8 million

18 · Independent

Cross-party breakdown

2 · Orkney Manifesto Group

21

1 · Green

Elected members

Audit approach

1. The statutory duty of Best Value was introduced in the Local Government in Scotland Act 2003. The audit of Best Value is a continuous process that forms part of the annual audit of every council. Audit conclusions are reported each year through the Annual Audit Report, addressed to the Controller of Audit and the councillors. In addition, the Controller of Audit will present a Best Value Assurance Report (BVAR) to the Accounts Commission at least once during the five-year audit appointment for each council. This is the first BVAR on Orkney Islands Council under the revised arrangements. Appendix 1 summarises the findings from the previous Best Value reports on the council in 2008.

2. This report seeks to provide the Accounts Commission with assurance on how effectively the council is meeting its statutory duty to deliver Best Value. In particular we focus on the Commission's Strategic Audit Priorities covering:

    • **the clarity of council priorities and quality of long-term planning to achieve these**

    • **how effectively councils are evaluating and implementing options for significant changes in delivering services**

    • **how effectively councils are ensuring that members and officers have the right knowledge, skills and time to lead and manage delivery of council priorities**

    • **how effectively councils are involving citizens in decisions about services**

    • **the quality of council public performance reporting to help citizens gauge improvement.**

3. We are looking for councils to demonstrate Best Value by showing continuous improvement in how they deliver their priorities. The pace, depth and continuity of improvement are key to how well councils meet those priorities in the future. Throughout the report we comment on the council's improvement over time and reflect our conclusions in the key messages.

4. Our audit approach is proportionate and risk-based, reflecting the context, risks and performance of the individual council. It also draws on the information from audit and scrutiny work carried out in previous years. In keeping with this approach we conducted some initial work to define the scope of our audit. This included reviewing previous audit and inspection reports, council documents, initial meetings with senior officers and reflecting on our wider public sector knowledge and experience. Exhibit 1 (page 6) shows the key areas we focused on for our audit of Orkney Islands Council.

Exhibit 1
Key areas of focus for our audit

- The council's strategic direction including:
  - the vision and priorities
  - planning and performance management
- Governance including:
  - councillor and officer roles and responsibilities
  - 'Following the public pound'
- How the council manages its resources, including:
  - financial planning and management
  - workforce planning and capacity
  - IT and digital approach
- Partnership working
- Community engagement and empowerment
- Equal opportunities
- Change and improvement including:
  - self-evaluation
  - change plans and programmes
- Performance and outcomes against the council's priorities

Source: Audit Scotland

5. The detailed audit work for this report took place between March and June 2017. Our audit work included:

- interviewing councillors, senior officers and community planning partners

- observing a range of council and committee meetings

- holding focus groups with councillors, council staff and community groups

- reviewing documents.

6. This report reflects the work done on the key areas of focus we note above. Our work covers a number of Best Value characteristics included in the statutory guidance (2004), but it does not cover them all. Our audit work in the future, as part of the annual audit of the council, will include follow-up on the findings from this report. It will also include more detailed audit work on other Best Value areas, as appropriate.

7. We gratefully acknowledge the cooperation and assistance provided to the audit team by all councillors, officers, partners and members of the public we contacted during the audit.

Key messages

1. **Orkney Islands Council is the smallest council in Scotland with a complex and challenging local context. The council has a very good understanding of the area and its communities and has clear priorities and ambition for the islands that reflect these. The council has stable, effective leadership with a strong focus on doing what is right for the communities of Orkney.**

2. **Since our 2008 Best Value report, the council has gradually improved how it plans and manages its activities. The council has improved its planning framework, performance management, its use of self-evaluation and the way it engages with communities. The pace of improvement in the council has increased over the past three years since it has focused its improvement work around a change programme and its medium-term financial planning.**

3. **The council has benefited from a strong financial position for many years. Income generated through marine port activities has contributed to substantial financial reserves. This has meant the council has been able to supplement local government funding, to some extent, to help protect front line services. Nevertheless, certain cost saving decisions have been taken and, for instance, the senior management team has been halved in size.**

4. **The council has been slow to develop some of the other essential tools for using resources efficiently. Examples include workforce planning, medium to long-term financial plans, asset management planning and digital and IT arrangements. The pace of progress has, however, picked up in recent years and it is important that the council maintains this increased pace to ensure it makes best use of public money. The council should prepare longer term financial plans to ensure the sustainability, feasibility and practicalities of current spending plans, and to demonstrate that dependency on the Strategic Reserve Fund, to subsidise service delivery, is limited to the short term.**

5. **Orkney residents show very high levels of satisfaction with council services, including some of the highest levels across Scotland. In addition, external service inspections have been positive, especially within the education service. However, when measured against the Local Government Benchmark Framework indicators, improvement in service performance has tended to be slower in Orkney Islands Council than comparable councils.**

6. **The council works well with its partners and local communities, with some examples of good community engagement and progress in empowering communities. However, the council and the Orkney Community Planning Partnership do not yet measure, monitor and report sufficient evidence to demonstrate how effectively they are making progress towards delivering their outcome priorities for the community.**

Part 1
Does the council have clear strategic direction?

The council understands the challenges and opportunities for Orkney and has clear priorities that reinforce its ambition for the islands

The council has significantly improved its corporate planning and performance management systems since 2008. This helps the council manage work towards its priorities more effectively. However, measuring and monitoring of performance does not yet clearly evidence how successfully its work is improving outcomes for the community.

Strategic leadership of the council remains stable and effective. A good level of mutual respect and trust exists between officers and councillors.

The council's governance arrangements provide an appropriate and effective framework for decision-making and scrutiny.

Training arrangements for councillors and their engagement in personal development need further improvement.

The Orkney Islands are a challenging environment but the unique context also offers opportunities

8. The Orkney Islands are an archipelago of 70 islands off the north coast of Scotland (Exhibit 2). Nineteen of the islands are populated with 80 per cent of the 21,850 population living on the main island, the Mainland.

9. Orkney has a growing population. It increased from 19,200 in 2001 to 21,850 in 2016 and is projected to increase to over 22,000 by 2039. It has an ageing population profile. The population aged 75 or over is expected to increase by 101 per cent by 2039 (Exhibit 3). This presents a challenge in providing sustainable services, particularly in the outer islands. The population growth is predominately on the Mainland. The outer islands show, in general, a gradual outward migration with a higher proportion of those leaving being younger people. This means the age profile of the outer islands is ageing at a higher level than the Mainland.

10. Maintaining good transport links is essential to ensure the social and economic sustainability of remote and sparsely populated communities. The council is responsible for major harbour operations at Scapa Flow, as well as a number of harbours, piers and six airfields, serving its island communities. It also operates ferry services and works in partnership with service providers and the Scottish Government to maintain lifeline air services.

Orkney has the smallest population of any council area in Scotland making up 0.4 per cent of the Scottish population.

Source: National Records of Scotland

Exhibit 2
Map of Orkney
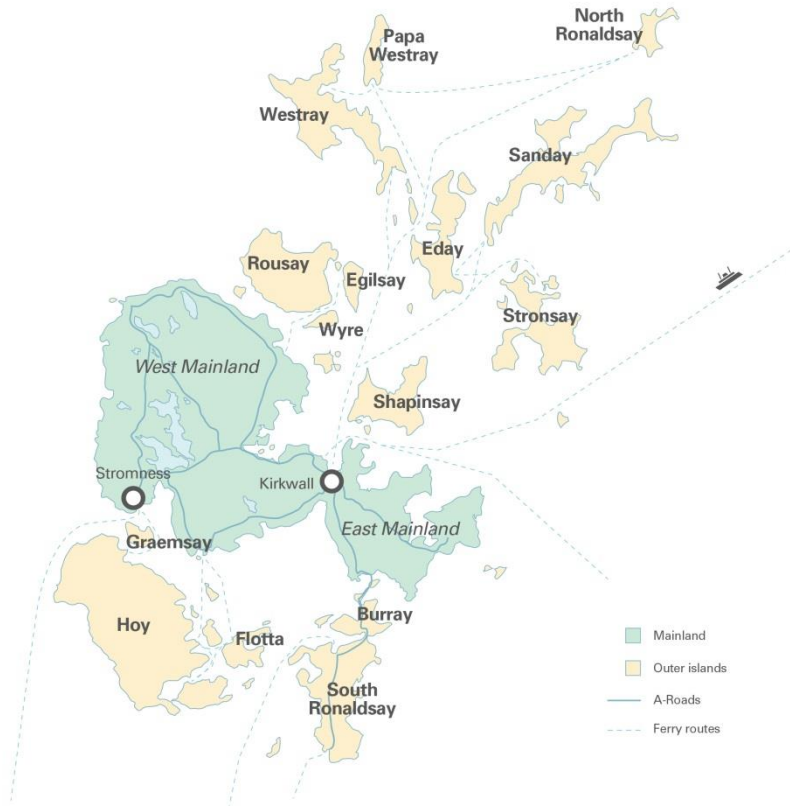
Source: Audit Scotland

Exhibit 3
Orkney Islands population projections 2014-2039 by age group
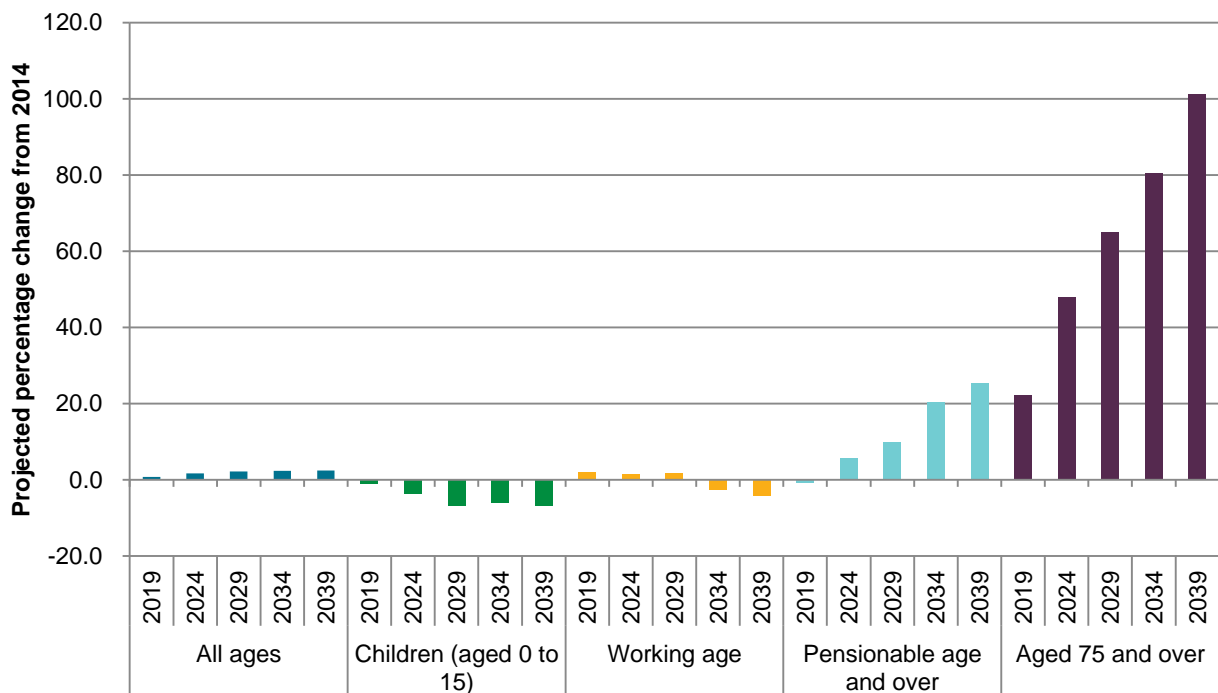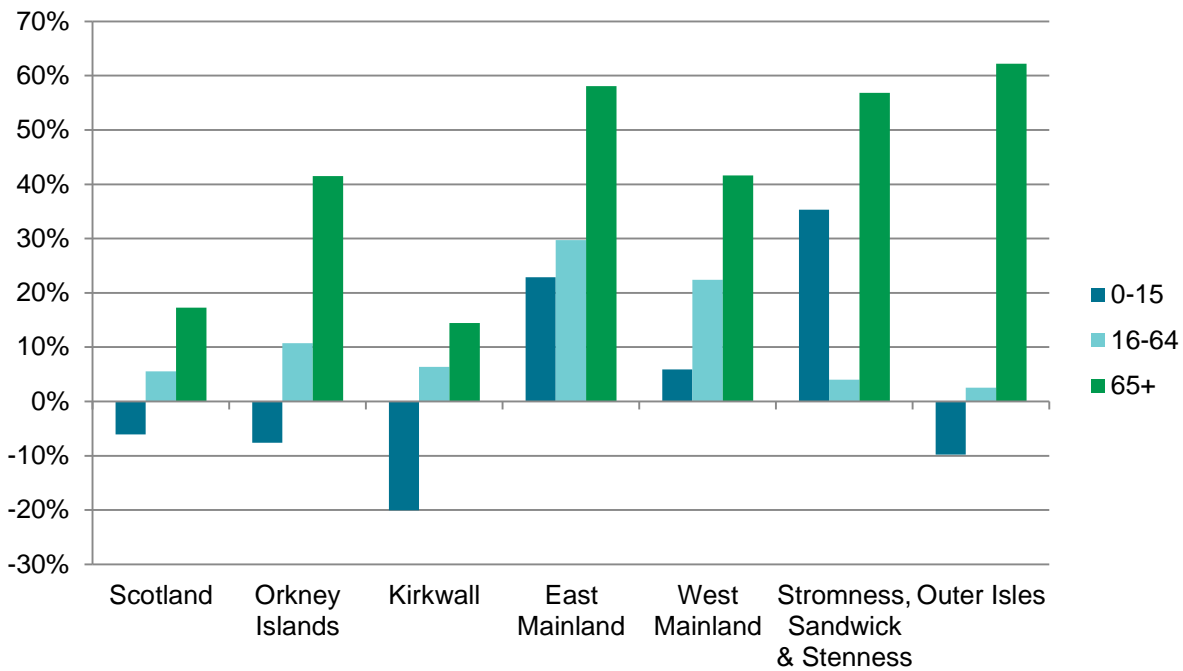

Source: National Records of Scotland, Projected percentage change in population (2014-based), by age structure and Scottish area, selected years

Orkney Islands population percentage change from 2001 to 2013 by location

Source: Scottish Neighbourhood Statistics, Mid-year population estimates (historical geographical boundaries), by age and area 2001-13

11. The islands benefit from a beautiful landscape, rich cultural heritage and globally significant archaeological sites. Tourism is one of the main industries on the islands and is growing. Notably the Mainland experiences significant numbers of tourists arriving from visiting cruise liners. In 2013, the council completed an extension to the Hatston pier, Kirkwall. This made it the longest deep-water commercial berth in Scotland. In addition to providing a base for freight and renewable energy development, it has attracted large cruise liners. In 2013, 71 cruise ships arrived. The number has increased each year and in 2017, 135 cruise ships arrived. The number of visitors to the islands varies per ship but can mean that several thousand tourists visit Kirkwall and the Mainland attractions in a day.

12. The other main industries on the islands are manufacturing, farming, fishing, and the energy sector, including oil and renewable energy. The council is one of the biggest employers on the islands, alongside the NHS, with one third of jobs in the public administration, education and health sectors.

13. The area has high employment figures, with 86[1] per cent of the working age population employed in June 2016 compared with a figure of 73 per cent nationally. The unemployment rate at 2.6 per cent is the lowest in Scotland. However, median weekly wage levels of £385.70 are the third lowest in Scotland. The cost of living is high, there is not enough affordable housing to meet demand[2] and fuel poverty is high. Fuel poverty occurs where greater than ten per cent of household income is spent on domestic fuel use.

14. The availability and quality of connections to broadband and mobile phone services varies greatly across the islands. The Orkney Islands have the

Orkney Islands Council is the smallest of the 32 Scottish councils with a workforce of just over 2,000 staff (approximately 1,500 FTE)

[1] Source: Skills Development Scotland

[2] Source: Orkney Islands Housing Needs & Demand Assessment 2016

slowest average broadband speeds in Scotland[3]. Poor connectivity makes it more difficult to attract investment and limits the viability of small businesses. It also affects the quality of life of communities and reduces equal access to on-line facilities and opportunities. This is particularly important when communities need to retain and attract young people. The council engages regularly with the UK and Scottish governments to promote more rapid improvements to coverage in Orkney.

The council has clear priorities and significantly improved corporate planning and performance management arrangements to help achieve these

15.   The council's 2013 corporate plan sets out its vision of 'working together for a better Orkney' alongside a set of corporate values and clear priorities (Exhibit 4). The issues and challenges for the islands' communities and the Orkney Community Planning Partnership's (OCPP) priorities are well reflected in the priorities and in the plan.

16.   Community planning is the process by which councils and other public bodies work with local communities, businesses and the voluntary sector to plan and deliver ways to improve the lives of people who live in Scotland. Community planning is led by Community Planning Partnerships. There is a partnership for each of the 32 council areas in Scotland.

17.   The council plan was refreshed in 2015 and preparation for a new plan began soon after the May 2017 election, with councillors taking the lead role in developing its content. Officers and councillors show a good knowledge and understanding of local needs and issues.

Exhibit 4 – Strategic priorities
The council's values and priorities 2013 – 2018

Council values	Council priorities
• Promoting survival - to support our communities • Promoting sustainability - to make sure economic, environmental and social factors are balanced. • Promoting equality and fairness - to encourage services to provide equal opportunities for everyone • Working together - to overcome issues more effectively through partnership working • Working with communities - to involve community councils, community groups, voluntary groups and individuals in the process • Working to provide better services - to improve the planning and delivery of services	• Care and support for those who need it • Promote successful, thriving communities • Housing to meet the needs of Orkney's people • A low carbon Orkney – renewables, energy and opportunity • Orkney's economic development • Orkney's transport networks • What we need to do*

*This priority relates to significant strategic activities the council has focused on during the span of the council plan. These include responding to new legislation and securing external funding opportunities for its community.

[3] Source: Audit Scotland, Superfast Broadband for Scotland an update, August 2016

Council priorities mapped to the OCPP priorities

Orkney's Community Planning Partnership priorities	Orkney Islands Council's priorities
Healthy and sustainable communities: • People in Orkney are encouraged and supported to adopt healthy lifestyles • People in Orkney are supported to plan and develop sustainable living and participate in community activities that improve access, build inclusiveness and reduce inequalities • Orkney has a sustainable workforce	• Care and support for those who need it • Promote successful, thriving communities • Housing to meet the needs of Orkney's people • Orkney's transport networks • A low carbon Orkney – renewables, energy and opportunity • Orkney's economic development
A vibrant economic environment: • Orkney is an attractive location for young people to live, work and study • Orkney is widely recognised as a location for innovation and the application of experimental thinking in sustainable development in an island context • Orkney's economy offers a broad range of community- based employment opportunities	• Orkney's economic development • Promote successful, thriving communities • A low carbon Orkney – renewables, energy and opportunity • Housing to meet the needs of Orkney's people • Orkney's transport networks
Positive ageing: • People live independently in their own homes or a homely setting where possible. • People are participating positively in their communities and the economy and are valued for their contribution. • People are enabled to take responsibility for their long term health and wellbeing.	• Care and support for those who need it • Promote successful, thriving communities • Housing to meet the needs of Orkney's people • Orkney's transport networks • Orkney's economic development

Source: Orkney Islands Council, Audit Scotland

18. In our 2008 Best Value report, we criticised the council for a lack of clear action plans to support the corporate priorities and weak performance management arrangements. The council has significantly improved its corporate planning since 2008. It has a clear council plan that sets out the corporate priorities and contributing actions. The priorities are evident throughout reports to council committees and in its other strategic and service level plans. For example, the education service contributes to all of the council's priorities but in particular the priority to 'promote successful, thriving communities'. This is evident in the Education, Leisure and Housing service plan. Councillors have ownership of the council plan and monitor progress against the contributing actions every six months.

19. The council has also improved its corporate performance management arrangements. It now has well established systematic arrangements in place. In 2013, the council began using a software tool to help it better manage performance information, risk management and progress against corporate and service level actions. This has improved monitoring and reporting on progress and performance to management and councillors.

The outcomes for the community are difficult to evidence
20. Performance management arrangements have improved significantly, but they do not systematically include monitoring the impact of the council's

policies and actions. The council plan targets are focussed on process and actions. The priorities reflect the issues for the communities and the plan clearly supports the priorities, but it does not set out how the processes and actions will contribute to improved outcomes for its communities.

21. This means that the council reports on progress against actions and performance in terms of the outputs of its activities and services, such as completion of a building project on cost and time or the cost per user of providing leisure facilities. It does not yet fully set out how well it is achieving the outcomes set out in its priorities. For example, it is clear from the evidence that the council has taken forward a range of actions and projects to 'Promote successful, thriving communities'. It identifies what the success factors of these individual projects are. It can also show the performance of the services that contribute to this priority. However, this does not tell us if the outcomes for the community have improved, in this example, if the communities of Orkney are measurably more successful and thriving, as a result of the policies, actions, projects and service delivery.

Reporting performance to the public has improved
22. In 2008, we assessed public performance reporting as 'underdeveloped'. In recent years, the council has improved this through learning from other councils. Council officers state that the most significant improvements were made in 2013/14. These improvements include developing and introducing specific pages on the council's website for public performance reporting. The council publishes an Annual Performance Report on its website. This shows the council's performance towards meeting the objectives set out in its council plan. This also illustrates performance against Local Government Benchmarking Framework (LGBF) indicators and compares performance against the previous year and the Scottish average for each indicator. The standard of annual performance reporting has improved in recent years.

23. In 2016, the council consulted its community about performance reporting. This revealed that the public had a high interest in the council's performance but generally lacked awareness of the public performance reporting pages on the council's website. In response, the council is enhancing how it reports performance by using social media more effectively.

Strategic leadership of the council remains stable and effective

24. The political and management culture in Orkney Islands Council is collegiate with common purpose and passion for the Islands. Councillors and officers are part of the community and are highly motivated to improve the quality of life for local people. A good level of mutual respect and trust exists between officers and councillors. Roles and responsibilities are understood and respected. Officers are accessible to all councillors and they are confident in the openness of officers.

25. The council has remained predominantly independent. The new leader, voted in following the 2017 election, is an experienced councillor with a good working relationship established with the chief executive and other councillors. Historically, there is a good level of mutual respect amongst councillors and they work well collectively for the area. Initial indications are that this culture continues with the new council.

Induction training for councillors is good but ongoing training would benefit from more structured arrangements
26. Officers have made a significant effort to support the new council with an enhanced induction process. This includes a rich programme of sessions on council arrangements and national and local issues that will run until the end of the calendar year. Councillors were involved in redeveloping it, and feedback on the programme, at the time of our audit, was positive.

27. Since 2008, officers have provided an increasingly varied programme of seminars for councillors. Councillors that we spoke to during the audit find

these sessions valuable and indicated that attendance at them is high. However, more formalised training arrangements for councillors and their uptake of personal development planning has been limited. The Accounts Commission, in its *2016, How Councils Work: Roles and Responsibilities report*, emphasises the *'increasing complexity of the local government environment'* and *'the crucial importance of councillors having the skills, knowledge and confidence to provide demonstrable leadership, to undertake a much wider variety of roles, and to manage this complexity effectively'*. The Commission also highlight that *'training and development should be an ongoing process, not just a one-off induction. Newly elected councillors can be overloaded at the start of their term'.* The council should consider how it can enhance its councillor training and development arrangements and encourage better uptake by councillors of personal development planning.

The management team works well together but the small scale means that management capacity is an on-going challenge

28. The chief executive has been in post since 1997. He took a temporary chief executive role in Shetland Islands Council in August 2010, returning to Orkney Islands Council in October 2012.

29. The chief executive and his senior management team operate well, showing shared corporate ownership and commitment. There is good communication and the team work effectively together across a wide range of issues with a sense of common responsibility for delivering the strategic plans.

30. The 2008 Best Value report stated that the senior management team '*would benefit from leadership development to support them in improving the strategic focus of the team*'. The council has put in place leadership development programmes to develop the wider management team's skills.

31. In 2011, the council restructured its service departments and reduced its management team from 34 Full Time Equivalent (FTE) to 18 FTE chief officer posts. The council's management capacity is inevitably limited by its small scale. The council's small corporate management team oversees the delivery of a wide range of services, local policies and priorities, responds to national policy agendas and plans for the council's change programme. The council recognises the limitations of its capacity and has continued to draw on external skills and capacity when this is needed.

32. A significant amount of senior political and management time and effort has been invested, since 2013, working with Shetland Islands Council and the Comhairle nan Eilean Siar, on the Our Islands Our Future strategy (see case study 2, page 37). The introduction of the Islands Bill to the Scottish Parliament in June 2017 is a significant milestone for the council and its partner island councils.

The council's governance arrangements provide an appropriate and effective framework for decision making and scrutiny

33. The council has a traditional committee structure in place which provides an appropriate framework for decision- making and scrutiny. In May 2012, it was restructured to align with the revised management structure. Supporting the full council are eight main committees:

- Policy and Resources Committee

- Monitoring and Audit Committee

- Development and Infrastructure Committee

- Education, Leisure and Housing Committee

- Orkney Health and Care Committee

- Licensing Committee

- Planning Committee

- Local Review Body.

34. The framework is supported by clear procedural documentation and councillors and officers have a good understanding and respect for their roles and responsibilities. The council has a history of, and continues to show, a respectful culture amongst councillors and of making decisions after collaborative discussion.

35. The standard of scrutiny by councillors is generally good with scope to improve the consistency and depth of challenge they give. Increased training for councillors would strengthen the level of scrutiny for decision-making, and on reporting of progress and performance.

36. The quality of reports provided to the council and its committees is mainly good. During the audit we identified a few exceptions where the quality of reporting was not adequate. Councillors and officers are aware of these and acknowledged the reports needed more detail and clearer information. Councillors indicated they are broadly happy with the quality and range of information provided to them.

37. Transparency means that the public, in particular local residents have access to understandable, relevant and timely information about how the council is taking decisions and how it is using resources such as money, people and assets.

38. Council business is conducted in an open and transparent manner and there is a commitment to this by councillors and officers. Councillors have good working relationships and access to officers to ask questions. This helps effective working in the council. Councillors are of the view that conversations they have do not impact on the transparency of full discussion and challenge in public forums.

39. Since June 2015, the council audio casts committee meetings through its website, increasing the community's access to the council's decision-making processes. Committee agendas, reports, minutes and audio files are all available on the council's website.

There is a good level of awareness and commitment to equalities

40. The council has made steady progress with developing its equalities arrangements. Our 2008 Best Value report stated that the council '*does well in providing equal access to services for those in remote locations*' but its approaches to other equalities issues '*need to be more fully developed*'. The council continues to focus on managing the challenges of communities in remote locations but has made good progress in developing wider arrangements. It has also developed a good level of engagement among councillors and managers in the equalities agenda.

41. The council has systematic arrangements in place to ensure equalities issues are part of decision-making processes. The council began using Equality Impact Assessments in 2008. These review how a change or introduction of a new policy, strategy or approach might impact on groups of staff or the public in terms of equalities characteristics (for example gender, ethnicity, sexual orientation) and consider how negative impact can be mitigated. The assessments are now routinely undertaken, reported and published on the council's website. The assessments are included with decision-making papers to committees and full council. Equalities is evident in the council's strategic planning, with the corporate value of 'Promoting equality and fairness' prominent in its council plan.

42. The council works closely with community planning partners on equalities. In 2012, the partnership developed a shared Equality and Diversity Strategy. The strategy recognises 'peripherality', that is, how remote and isolated a community, household or individual is, as a specific issue to consider. The council and partners adapt and adopt the strategy for their own requirements.

   In 2013, the council set out priority outcomes for equalities and refined these in 2015 (Exhibit 5). The council reports on progress against activities contributing to these objectives in annual equalities reports. However, the council needs to identify clear measures to monitor how effectively it is achieving these objectives. The council analyses the workforce and population information it collates, although limited information on some equalities categories and small numbers make it challenging in some cases to make meaningful findings from the data.

Exhibit 5
Equalities outcomes

1. More young, disabled and long-term unemployed people are in work and training
2. Ensure there are no barriers in recruitment, training or promotion opportunities
3. Ensure terms of employment and human resource policies and procedures are applied fairly and consistently and in ways that promote equal opportunities and do not disadvantage employees
4. Ensure a skilled workforce and training in Orkney to optimise opportunities in the renewable sector
5. Greater sensitivity by employees to the diversity of service users and colleagues and to equality issues
6. Improve access to the democratic process
7. An increased proportion of council and education authority communication adheres to the principles of inclusive communication good practice standards
8. Ensure there are no barriers for looked after children and young people for opportunities within education

Source: Orkney Islands Council, Annual Equalities report 2017

43. In 2015/16, 28.4 per cent of the top five per cent earners in the council were female compared to 51.9 per cent across all Scottish councils. Although the council needs to consider this difference, the small scale of the council means that this percentage can be affected significantly by only one or two posts.

44. The gender pay gap in 2015/16, for the wider staff group, is nine per cent in Orkney compared to 4.5 per cent nationally. The council reports that this gap increased slightly between 2016 and 2017. The male dominated service areas in the development and infrastructure service are a significant contributing factor. Some of the functions within the service, such as marine services, are not part of most councils' remit in Scotland. These services are competing for some staff with private industry in the islands such as the oil and renewable energy sectors and therefore the level of pay reflects this. In this service only 22.9 per cent of the staff are women, compared to a council-wide proportion of 67.9 per cent. As in the wider public sector, a higher proportion of women in this service and across the council, are in part time posts compared to men. The council recognises the gender imbalance across some service areas and acknowledges that this needs to change.

45. The gender imbalance across the councillors is also notable. Following the 2017 election, of the 21 councillors, three are women. Before the election, officers identified low numbers of female candidates and supported a female councillor to write a press article to encourage more women to stand. This had a positive impact and increased the pool of female candidates. The council should consider further why the proportion of women candidates is low and how it can influence this for the future.

Part 2
How well is the council performing?

The council's services are working hard to deliver its priorities for the community and citizen satisfaction levels are high, but the council still needs to drive improvement in service performance

The council carries out a lot of work across its services towards achieving its priorities. Although measurable outcomes are not evidenced, the focus is clearly on delivering a positive impact for the community.

Satisfaction with most services has remained high and the council has some of the highest satisfaction scores in the country

Service inspections have tended to be positive, particularly within the education service

Improvement in service performance has tended to be slower in Orkney Islands Council, when measured against the Local Government Benchmark Framework indicators, than comparable councils.

The council works hard to achieve its strategic priorities. However the links between activities and measurable outcomes for communities are not clearly demonstrated

46. The council's strategic priorities are set out in Exhibit 4 (page 11). For each priority there is a programme of projects, activities and actions. Completing each of these will contribute towards achieving the objectives of the strategic priorities. Progress against the council plan is reported to the policy and resources committee every six months.

47. The council does not clearly demonstrate how its actions and activities have contributed to improved outcomes for the community. In the absence of this information, our report focuses in the following paragraphs on some of the council's actions and activities that may contribute to delivering improved outcomes to communities for each of its priorities.

Care and support for those who need it
Orkney Islands Council has worked well with NHS Orkney to improve the residential care facilities for children in its care and secure foster placements for children with greater support needs. It is also taking early steps to increase residential care capacity on the Mainland in anticipation of an increasing ageing population.

48. From 2010/11 to 2015/16, the proportion of children in the council's care who were being looked after in a community rather than residential setting had

declined by over six per cent. In 2015/16, performance in this indicator was the lowest in Scotland at 71 per cent. However, this statistic relates to a small number of children compared to other council areas. At 31 July 2016, Orkney had the smallest number of looked after children compared to other Scottish councils. In 2015, the Orkney Health and Care Service, a partnership between the council and NHS Orkney, opened a new children's house. This replaced the previous facility with a more modern setting and provides a total of four residential accommodation places for children. A successful intensive fostering project was piloted from 2014-17. Two full-time professional foster carers were recruited for three looked after children who required more intensive levels of care and support. Two of the children were previously in residential care. The council states it is looking towards the permanent establishment of this service.

49.   The overall population of the Orkney Islands is projected to increase over time, with an increasing proportion being elderly people. The council is facing challenges to meet the growing demand for residential care accommodation and care at home services. It is in the process of increasing its capacity to deliver residential care and is due to open new care homes in Stromness in 2019, and in Kirkwall in 2021. This is intended to meet the demand that will be placed on the service by the projected ageing population. The care homes will also provide support to those with higher dependency needs.

50.   The percentage of over 65s with intensive care needs receiving care at home declined between 2010/11 and 2015/16. In 2015/16, this figure was below 24 per cent which was the fourth lowest in Scotland. In 2017, a joint inspection report by the Care Inspectorate and Healthcare Improvement Scotland highlighted that there are capacity issues within the care at home service.

51.   Between 2013 and 2016, satisfaction with adult social care and social work was the second highest in Scotland, at 72 per cent. Similarly, the council was ranked third highest in Scotland, with 86 per cent of adults receiving care or support, rating it as excellent or good. This had declined from the previous year where the council ranked highest in Scotland for this indicator with 92 per cent.

52.   A number of inspections have been conducted by the Care Inspectorate since 2013, including inspections of services for children and young people in Orkney, the Care at Home Service, services for older people in Orkney, as well as inspections of individual care homes. These have been generally positive.

Promoting successful, thriving communities
The council is seeking to involve remote island communities in some aspects of service delivery, increasing employment within these communities. As part of this strategic priority the council is also making positive progress towards improving outcomes for young people through enhanced experiences while they are in education

53.   From 2004/05 to 2014/15 the fragility[4] of the Orkney Islands increased[5]. The council has recognised this within this priority, emphasising local communities participating in delivering some services.

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[4] Fragility is a weighted combination of de-population, rural de-population and old age dependency ratio, which is the ratio of the older population (65 and over) to the working age population (16-64).
[5] Source: Community Planning Outcomes Profile, Improvement Service

54. The council has delivered a successful 'Empowering Communities' pilot project, to support some council services to be delivered at a more local level. This is outlined in case study 3 (page 39). The council also has a Community Development Fund which supports community-based projects. An example is the refurbishment of the Kelp Store in Papa Westray. The council contributed 50 per cent of the funding towards the project from its Community Development Fund to refurbish the building, which is used as a heritage and craft centre and for local events.

55. The education service has a history of good performance. The 2015 refresh of the council plan included a range of objectives aimed at improving outcomes for children through education. As part of this the council is currently developing an initiative called the 'Orkney Offer'. The aim is to allow senior school pupils to have vocational as well as academic experiences while at school to allow them to develop skills and enter positive destinations. One such 'offer' being developed is the 'Foundation Apprenticeship'. This involves college study and a work placement while still learning at school, and could allow the pupil to achieve the first year of a modern apprenticeship by the time they leave school. This also helps develop a skilled workforce within Orkney.

56. Since 2012, Education Scotland has inspected eight primary schools (all of which included early years establishments that were also inspected), one secondary school and one nursery. These have been positive and reflect the high quality of the education service within the Orkney Islands. During this period only one of these schools required follow up visits to resolve issues identified in relation to working relationships, meeting children's learning needs, self-evaluation and religious observance. Improvements to these areas were subsequently made to the satisfaction of the inspectorate.

57. Adult satisfaction with local schools in the Orkney Islands was consistently the highest in Scotland between 2010/11 to 2015/16. Pupil attainment has improved over time, measured by attainment of five or more awards at levels 5 and 6[6]. In 2015/16, attainment at level 5 was 64 per cent which was above the Scottish average of 59 per cent. In the same year, attainment at level 6 was 28 per cent which was below the Scottish average of 33 per cent. Between 2010 and 2016, the proportion of pupils entering positive destinations improved, but in 2015/16 performance in this indicator was 91 per cent, which was below the Scottish average of 93 per cent.

Housing to meet the needs of Orkney's people
The council has increased its social housing stock in recent years. Fuel poverty remains an issue, particularly in the outer islands, and the council has developed a strategy and action plan to address this issue

58. The demand for affordable housing has been increasing in the Orkney Islands in recent years. The council also has the highest level of fuel poverty in Scotland, which is in part due to the standard of housing stock as a result of its age and condition.

59. The council has performed well in terms of increasing the availability of social housing on the Mainland. Between 2009 and 2015, the council reported that a total of 466 social houses were built (by both Orkney Islands Council and Orkney Housing Association Ltd). However only ten of these were built on the outer islands. Between 2010 and 2016, the council built 208 properties distributed on the Mainland and the isles of Westray and

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[6] Level 5 in the Scottish Credit and Qualifications Framework (SCQF) relates to attainment at SQA National 5 and level 6 relates to attainment of SQA Highers.

Sanday where the demand for social housing is higher. Demand is lower in other islands, for example, on Hoy and Flotta, where the current housing stock is greater than the need, a programme of sale is in progress. The council is working well to increase the provision of affordable housing in the Orkney Islands. In March 2017, the council reported that, out of a target of 35, it had built 24 new affordable houses since April 2016, all of which were social rented houses. Furthermore, the council reported that 32 private properties were being built under the Scottish Government's new Help to Buy Scheme. In 2015/16, the council reported that 51 affordable houses had been built between Orkney Islands Council and Orkney Housing Association Ltd.

60. As part of its council plan, the council also increased the availability of supported accommodation for young homeless individuals in 2015 by providing an additional six accommodation units.

61. The council has performed less well in tackling the issue of fuel poverty, which it set out to do through improving heating and insulation in both social and private housing stock. The Scottish House Condition Survey found that between 2013 and 2015 the Orkney Islands had the highest levels of fuel poverty in Scotland. The high level of fuel poverty is linked to a range of factors including, the low average household income, the cost of heating as a result of no mains gas, the harsh climate, and the age and condition of housing stock. There are higher levels of fuel poverty in the outer islands, where living costs are higher and the housing stock is older. The council developed a Local Housing Strategy for 2011-16, one of the key priorities of which was to eradicate fuel poverty by 2016. However, fuel poverty rates are still high. The council has established a new fuel poverty strategy to cover the period from 2017 to 2022. This sets out an action plan for tackling this issue and aims to reduce levels to the Scottish average by 2022, and eradicate fuel poverty by 2032.

62. The council has made progress in bringing council housing standards up to meet the Scottish Housing Quality Standard. This is the Scottish Government's measurement of housing quality in Scotland and sets the minimum standard for social housing quality. Performance in this indicator improved by 63 per cent between 2010/11 and 2015/16. In 2015/16, however, the council still had the second worst performance for this indicator at less than 89 per cent. In addition, in 2015/16, 89 per cent of council dwellings were energy efficient in the Orkney Islands. This was the second lowest performance in Scotland. The energy efficiency of houses has improved by over 58 per cent in the Orkney Islands between 2010/11 and 2015/16.

63. In 2016, the council conducted a tenant satisfaction survey. This found that 87 per cent of respondents were very, or fairly, satisfied with the overall service provided by the council's housing service. This compares to a figure of 88 per cent in 2013.

A low carbon Orkney – renewables, energy and opportunity
The council is taking positive steps towards reducing carbon emissions in the Orkney Islands

64. The council has performed well in reducing carbon emissions through a proactive approach to implementing low carbon technologies. However, its island context makes it challenging to reduce at the same rate as other councils. Carbon emissions within the Orkney Islands reduced by over 24 per cent between 2004/05 and 2014/15, according to the Improvement Service's Community Planning Outcomes Profile. Nationally this reduced by over 34 per cent during the same period. In 2014/15 Orkney's figure was 10.5 tonnes per capita compared to the Scottish average of 5.7.

65. The council continues to be involved in a number of projects which are investigating the use of low carbon technologies. One example is the Surf N

Turf Project which is currently in the early stages of examining the generation of hydrogen from locally produced tidal and wind energy to be used as a fuel source, including providing energy for the council's ferries. In 2011, the council provided funding, along with the European Regional Development Fund, to develop the quay area of Lyness for use in Orkney Islands marine renewables industry. In 2014, the council received funding for an electric bus to introduce low carbon public transport and use locally produced renewable energy.

66. The council is exploring several strategic projects focused on energy generation from renewable technologies. One example being considered is whether to establish an Orkney energy company with the council being the project developer. The aim is to offer a community tariff to reduce heating costs and therefore contribute to reducing fuel poverty. It is also anticipated that the approach could contribute to reduced carbon emissions and generate income for the council.

67. In partnership with Highlands and Islands Enterprise, the council is in the process of developing a Research and Innovation Campus. The aim is to develop the marine renewables industry in Orkney and contribute to the developing 'Orkney Offer' through academic and employment opportunities. Case study 1 on page 34 discusses this further.

Orkney's economic development
The council is innovative and diverse in its approaches towards improving Orkney's economy

68. The employment rate in Orkney improved between 2004/05 and 2014/15 and sits above the Scottish average. During this time, weekly earnings increased, however these remain lower than the Scottish average.

69. The council is performing well in improving Orkney's economy and is involved in a wide range of projects targeted towards this. These range from projects to develop tourism, the academic research and renewable energy sectors to promoting the local food and craft industries. A significant aspect of the work to promote the economy has centred on marine services. Examples of this include commercial fishing, crude oil processing at the Flotta Oil Terminal, ship-to-ship crude oil transfer operations and associated discharge of ballast water in Scapa Flow. The Orkney Islands have experienced year-on-year growth in the cruise industry and 135 cruise ships, carrying 113,085 passengers, arrived in 2017. The council, with its partners Highlands and Islands Enterprise and Historic Environment Scotland, commissioned a study in 2016 to investigate factors that may impact on the growing tourism industry in Orkney. The council plan for this to feed into a wider tourism management strategy.

70. The percentage of council procurement spent in local businesses increased between 2010/11 and 2015/16. In 2015/16, this was the second highest level in Scotland at over 44 per cent compared to the national average of below 20 per cent.

71. The number of Business Gateway start ups per 10,000 of the population declined between 2010/11 to 2015/16. Despite this, in 2015/16 the council had 19.8 Business Gateway start ups compared with the Scottish average of 16.9.

72. Since 2013, as part of the council plan, the council has provided a number of work experience placements, modern apprenticeships and graduate traineeships. The aim is to help young and unemployed people gain skills to support them in employment. Foundation apprenticeships are also being developed by the council in schools, with a Health and Social Care Foundation Apprenticeship being offered in August 2016. The council reported that there was no uptake for this and have stated that it will develop this further to encourage people to take part.

Orkney's transport networks
The council considers the needs of communities when planning ferry and air services. Orkney's roads are some of the best in Scotland

73. Good transport links are of paramount importance to sustaining island communities, particularly the non-linked outer islands. This is recognised in this priority within the council plan.

74. The council has taken positive action towards identifying pressures on the inter-isles air and ferry transport services and consults with community councils on the scheduling of these services. The council continues to invest in its airfield infrastructure, including the resurfacing of airfield runways, installation of new fire-fighting equipment, and the construction of new terminal and garage facilities. In 2015, runways in Papa Westray's and Stronsay's airfields were resurfaced. The council has a proposed runway resurfacing maintenance programme with provisional work planned until 2027/28. An inter-island transport study was also carried out in 2016 on behalf of the council and its partners, Highland and Islands Enterprise, Transport Scotland and HITRANS. This involved community consultation and has helped to identify issues concerning transportation within the island communities. The final published report includes options appraisals for each of the islands.

75. As part of the Our Islands Our Future Agenda (see case study 2, page 37), Orkney and Shetland Islands Councils have pursued changes to the funding of ferry services. The Scottish Government has committed to the principle of 'fair funding' for Orkney and Shetland councils' inter-island ferry services[7] and discussions on this issue continue. In August 2017, the Scottish Government announced that lower fares will be introduced from 2018 for services between the islands and the Scottish Mainland, bringing Orkney (and Shetland) more in line with the arrangements currently in place with other island authorities.

76. The council had the best scores in Scotland for the percentage of B, and C-class roads requiring maintenance from 2014-16. The council was also ranked sixth for A-class roads during this time. From 2012-16, the council was ranked best in Scotland for unclassified roads requiring maintenance. In 2015, the council funded and constructed a new road infrastructure for the new hospital in Kirkwall. It is currently completing flood resilience works in Kirkwall to improve the protection of the town's centre and road links from coastal flooding in periods of adverse weather.

Orkney Islands Council's improvement in service performance has been mixed in recent years

77. When measured against the Local Government Benchmark indicators, Orkney Islands Council's performance improved between 2010/11 and 2015/16. Over this period, the percentage of comparable performance indicators in the top two quartiles improved from 35 per cent to 41 per cent. The percentage of performance indicators in the bottom quartile increased during this period from 38 per cent to 46 per cent (Exhibit 6).
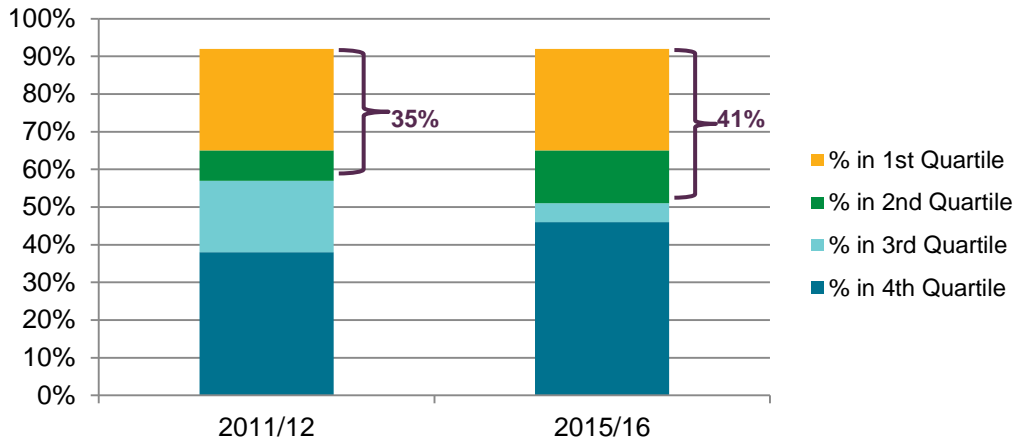
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[7] Source: Empowering Scotland's Island Communities, Island Areas Ministerial Working Group, June 2014

Exhibit 6
Comparing Orkney Islands Council's performance over time
The percentage of Orkney Islands Council's comparable performance indicators in the top two quartiles increased from 35 per cent in 2010/11 to 41 per cent in 2015/16

Note: Measuring council performance involves considering a range of how all councils are performing, from lowest to highest for each indicator. From this it is possible to see how one council compares to all councils. Relative performance against other councils is divided into four equal bands, or quartiles. The first quartile contains the best-performing councils for that indicator and the fourth quartile includes the poorest-performing councils. Cost indicators have been excluded from this analysis.

Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16

78. The Accounts Commission's report*, Local government in Scotland: Performance and challenges 2017* found that over the last five years Scottish councils' performance has been maintained or improved. This was based on selected Local Government Benchmarking Framework (LGBF) measures that give an indication of council performance in key service areas for the public. Orkney Islands Council improved in four of these indicators and declined in three (Exhibit 7).

79. The LGBF also allows councils to compare their performance against a range of indicators of service delivery to the Scottish average. Councils with similar profiles are also arranged into family groups which are based on factors such as population density and levels of deprivation. This allows councils with similar characteristics to compare and benchmark performance. Compared to the Scottish average for 2015/16, Orkney Islands Council displays below average performance for six of the seven selected indicators (Exhibit 8, page 25). Relative to its family group, the council tends to sit on the lower end for performance in most of the selected indicators (Exhibit 8). There has been a mixed picture in terms of the rate of the council's improvement in performance between 2010/11 and 2015/16. In comparison with the family groups, relative improvement has generally been slower than for other councils. However, it is important to take account of the council's island context and small scale when comparing performance to the Scottish average and to its family groups.

Exhibit 7
Orkney Islands Council's performance against selected indicators 2010/11 to 2015/16
Orkney Islands Council's performance has improved on the four of these indicators over the last five years.

— % income received from council tax by end of year

— % pupils entering positive destinations

— % children looked after in the community

— % 65+ with intensive needs receiving care at home

— % pupils gaining 5+ awards at Level 6

— % household waste arising that is recycled

— SDS spend on adults as a % of total social work spend on adults
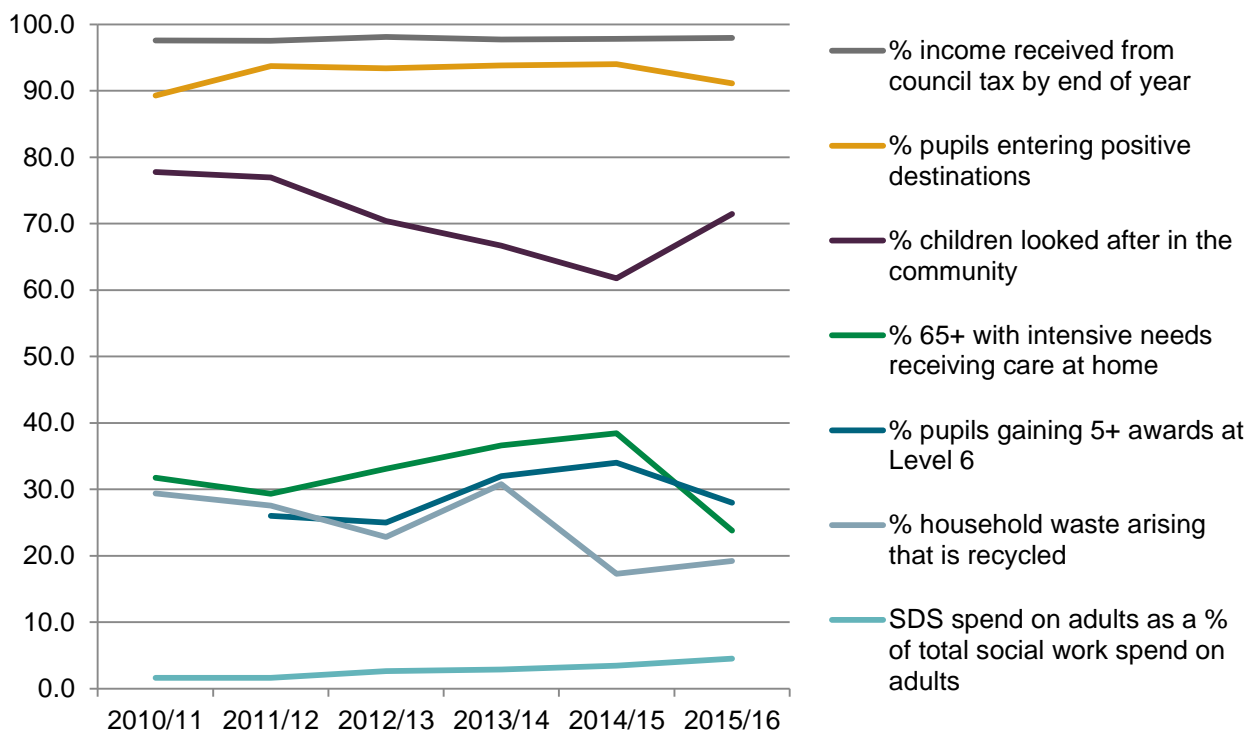
Notes:
1. Data is not available for all indicators from 2010/11 to 2015/16
2. Orkney's small population means that changes in performance can relate to small numbers of individuals but show a large percentage change

Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16

Exhibit 8
Orkney Islands Council's performance relative to the Scottish average and family group, 2015/16

	Indicator	Orkney Islands	Scotland	Family group[1]	% point change (2010/11 – 2015/16)
	Percentage of pupils gaining 5+ awards at Level 6 or higher[2]	28%	33%	Performance ranges from 28% to 62%	**Orkney Islands Council: 2% (performance improved)** Scotland: 7% Family group range from 2% to 12%
Family group based on levels of deprivation	**Self Directed Support**[3] **spend on adults 18+ as a percentage of total social work spend on adults 18+**	4.5%	6.7%	Performance ranges from 2.6% to 7.9%	**Orkney Islands Council: 2.9% (performance improved)** **Scotland: 5.1%** **Family group range from 1.2% to 7.6%**

Percentage people aged 65+ with intensive care needs receiving care at home	23.8%	34.8%	Performance ranges from 20.4% to 43.8%	**Orkney Islands Council: -8.0% (performance declined)** Scotland: 2.5% Family group range from: -19.8% to 16.5%
Children being looked after in the community	71.4%	90.4%	Performance ranges from 71.4% to 95.4%	**Orkney Islands Council: -6.4% (performance declined)** Scotland: -0.6% Family group range from: -6.4% to 3.2%
Pupils entering positive destinations	91.1%	93.3%	Performance ranges from 90.3% to 97.5%	**Orkney Islands Council: 1.8% (performance improved)** Scotland: 3.4% Family group range from: 1.8% to 6.3%
Percentage of income due from council tax received by the end of the year	98%	95.7%	Performance ranges from 95.6% to 98.0%	**Orkney Islands Council: 0.4% (performance improved)** Scotland: 1.0% Family group range from: -0.2% to 1.3%
Percentage of total household waste that is recycled	19.2%	44.3%	Performance ranges from 9.2% to 47.1%	**Orkney Islands Council: -10.2% (performance declined)** Scotland: 5.6% Family group range from: -11.1% to 14.7%

Family group based on levels of population density

Notes:

1. Family group based on deprivation – Orkney Islands, Aberdeen City, Aberdeenshire, East Dunbartonshire, East Renfrewshire, Edinburgh City, Perth and Kinross and Shetland Islands. Family group based on population density – Orkney Islands, Aberdeenshire, Argyll and Bute, Dumfries and Galloway, Eilean Siar, Highland, Scottish Borders and Shetland Islands.
2. 2010/11 data was not available for this indicator, therefore data ranges from 2011/12-2015/16
3. Self Directed Support (SDS) aims to give individuals who receive social care support, along with their carers and families, more choice over how their social care support is delivered. This is intended to improve outcomes for the individual.

Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16

Part 3
Is the council using its resources effectively?

The council has been slow to develop some of the essential tools for ensuring it uses resources efficiently. It has made better progress in the last few years and needs to maintain this pace of improvement

The council has substantial reserves for its size and compared to other councils. These have increased significantly over the last six years. Using its reserves has allowed the council to meet short and medium-term budget pressures and thus, to a degree, protect front line services.

The council has been slow to develop medium and long term financial planning, workforce planning, asset management planning and its digital and IT arrangements. It has made better progress over the past three years and it needs to continue this pace of improvement to ensure that it makes the best use of public money.

The council should prepare longer term financial plans to ensure the sustainability, feasibility and practicalities of current spending plans, and to show that dependency on the Strategic Reserve Fund, to subsidise service delivery, is limited to the short term.

The council's financial management is effective, and it now has a good medium-term financial strategy

80. The council has effective internal financial management arrangements in place and has improved its financial planning since our Best Value report in 2008.

81. Councillors have a key role in agreeing the council budget each year. All councillors receive training annually on the budget process to ensure they fully understand underlying assumptions and implications of the spending decisions they make.

82. Detailed scrutiny of financial performance is delegated to the policy and resources committee. The committee reviews the council's quarterly revenue and capital monitoring financial reports. These provide a good overall picture of the budget position at service level but are typically three months out of date by the time councillors on the committee review them. Nonetheless councillors are generally content with the reports they receive.

83. In 2008, there was no evidence of a link between budgets and corporate priorities and this continues to be the case. To comply with good practice, the priorities of the council that are set out in the council plan should feed into the allocation of revenue and capital resources for each service. This will ensure that the council optimises the use of resources at its disposal.

84. The council has been slow to respond to the need to prepare medium to long term financial plans due to its strong financial position. The level of useable reserves held by the council has increased significantly over the last six years and this has enabled the council to fully fund service costs up to now and plans are in place for this practice to continue in the short term.

85. In 2014/15, the council prepared a four year Medium Term Resource Strategy (MTRS) for the period 2015/16 to 2019/20 which was approved by the policy and resources committee in February 2015. Since then the strategy has been updated annually and the current MTRS now covers the five year period of 2017/18 to 2021/22. The MTRS includes different scenarios and is based on reasonable assumptions. It also provides a framework to enable the clear alignment of resources to the council's spending priorities.

86. The council has not yet developed a longer term financial plan. Longer term financial planning would ensure the sustainability, feasibility and practicalities of current spending plans. The council accepts that longer term financial plans are essential to ensure that funds are used to deliver the priorities of the council and that reserves continue to provide benefit for the people of Orkney in the way intended. The council has advised that capacity issues are preventing progress with longer term financial planning.

87. The council has a high level of financial reserves that it has relied on, to some degree, in meeting financial pressures and protecting front line services. Whilst the reserves have been used to supplement local government funding allocations, the council has still had to make some difficult decisions. Over the past six years the council has made £10.6 million in savings, including almost halving the senior management team. The council approved its 2017/18 budget in February 2017. The budget was set at £82.4 million with confirmed Scottish Government revenue funding to the council for 2017/18 of £67.1 million. This leaves a funding gap of £15.3 million. The council has agreed to fund £7.4 million of the gap from reserves and the remainder will be met through income, fees and charges, and efficiency savings.

88. The council's budget information and financial projections for 2017/18 to 2021/22 forecast a likely funding gap of £12 million over the five years. Detailed proposals on how to achieve savings of £12.0 million, which are additional to the budget savings of £10.6 million that have been delivered by the council since 2011/12, are under development. Plans to bridge part of the gap have been identified including savings generated from delivery of the council's change programme.

89. One of the key measures of the financial health of a council is the level of financial reserves it holds. Orkney Islands Council has been in a strong financial position over a number of years with increasing levels of usable reserves. Councils can use usable reserves for a variety of purposes such as funding one-off revenue or capital costs and cushioning the impact of reductions to budgets.

90. The total reserves the council holds has increased from £455.49 million in 2012/13 to £547.25 million in 2016/17. At the same time, the level of usable reserves the council holds has increased from £225.99 million in 2012/13 to £260.85 million in 2016/17. The level of reserves the council holds is significant for its size and it has one of the highest levels of useable reserves per head compared to all other Scottish councils, as illustrated in Exhibit 9.

Exhibit 9
Usable reserves position per head of population by local authority
Orkney Islands Council, based on entity accounts, has the highest level of useable reserves per head of population in Scotland; Shetland Islands Council has additional significant funds in a charitable trust.
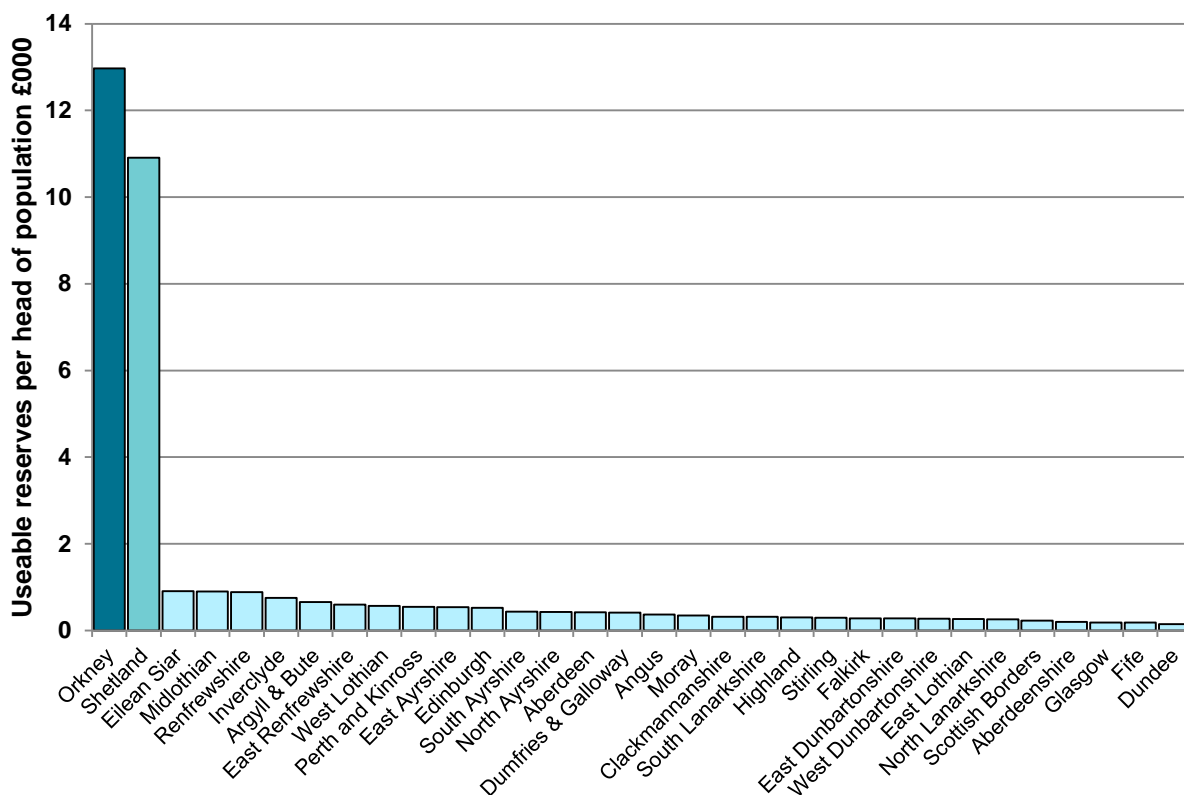
Source: Councils' unaudited council entity accounts 2016/17; Audit Scotland

91.   Close to 90 per cent of the usable reserves are in the council's strategic reserve fund. The strategic reserve fund is an investment fund with the purpose to provide for the benefit of Orkney and its inhabitants. It was established under the Orkney County Council Act 1974. It includes investment returns from surplus funds relating to harbour fees from the Flotta Oil Terminal and previous payments made by the terminal operators. The fund's investments have performed well with an overall increasing trend in value.

92.   The council is facing rising demands for services, increasing costs, and reductions in central government funding. In recent years, the council has approved contributions from the fund to supplement its funding from the Scottish Government and local taxes raised through council tax and non-domestic rates. This means that the council has used the strategic reserve fund to help prevent some cuts to services for the people of Orkney.

93.   Although the strategic reserve funds are substantial, the council does not plan to rely on these for managing funding pressures in the longer term (five years and beyond). It does plan to use them in the short (one year) to medium term (up to five years) to lessen the impact of change and savings it will have to make over the coming years.

94.   The high level of reserves further supports the need for long term financial planning to ensure that funds will be used to achieve strategic aims and benefit the people of Orkney.

**Arrangements are in place for managing the council's investments**

95. The council has an investment strategy which is updated on an annual basis. In 2016/17, £185 million of the council's funds were managed by externally appointed fund managers who are required to comply with the council's investment strategy. The investment management agreements between the council and the fund managers stipulate guidelines on the duration and limits on types of investment, in order to contain and mitigate associated risks.

96. The council's over-riding objective is to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The performance of the managed funds for the Strategic Reserve Fund is closely monitored.

The council has a history of not completing capital projects on time

97. The council's comfortable financial position has allowed it to be ambitious in agreeing its capital programme for a number of years. However, the desire to invest heavily in capital projects (such as new buildings or transport infrastructure) has been difficult to fulfil due to limited capacity. This has resulted in the council having a history of slippage, that is not completing capital projects and applying the allocated budgets within the planned timeframe. Exhibit 10 demonstrates the level of slippage in the capital budget since 2014/15.

98. To deal with the slippage the council, in 2015, established a new capital programme management team, undertook a detailed review and revision of its capital project monitoring processes, and has prepared a revised capital investment plan to reflect current timescales for completing individual capital projects. The council should ensure that slippage and rescheduling of general fund capital projects does not have a significant impact on strategic priorities that rely on capital projects being completed on time.

Exhibit 10
Capital slippage compared to budget (General Fund and HRA)

Source: Orkney Islands Council
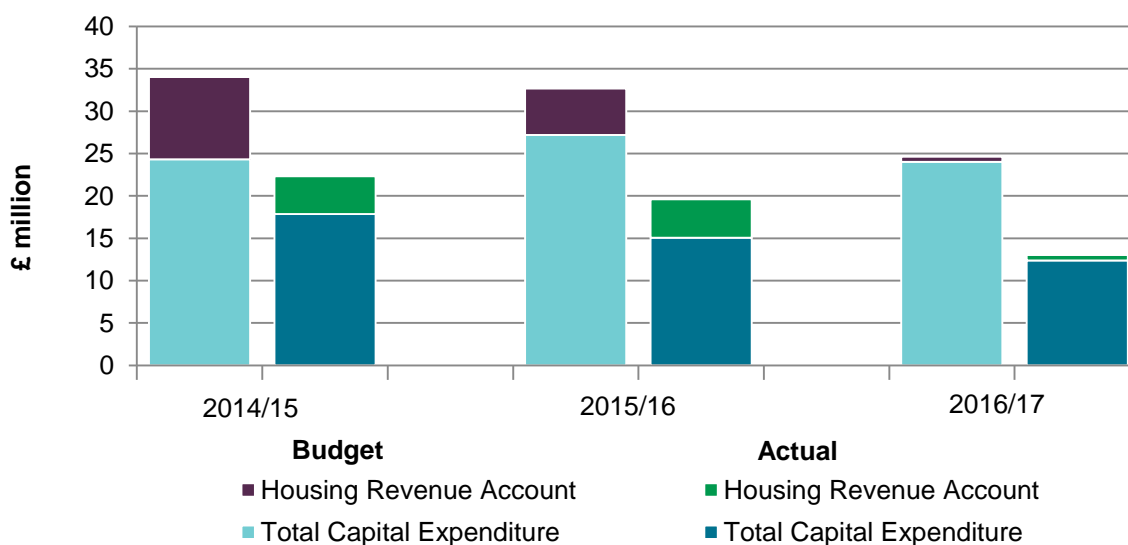
The council has been slow to develop its approach to corporate asset management planning

99. A council must manage its assets, such as buildings, land, vehicles and equipment, effectively to make the best use of public resources in delivering quality public services. Orkney Islands Council has been slow to develop structured and systematic arrangements for corporate wide asset management.

100. Whilst the Council's Corporate Asset Management Plan has been in place since 2013, the council has recently improved its corporate asset management planning process through its capital planning and asset management strategy group. A management framework has been established to improve the integration of asset management planning and investment decisions.

101. The framework ensures that asset management planning is dealt with at a sufficiently senior level. The senior management team, acting as a capital working group, is chaired by the chief executive. The group provides oversight of the management of corporate assets within the council and ensures that all asset management decisions are made from a strategic level perspective.

102. Detailed asset management plans underpin the council's corporate asset management plan. Work is ongoing to refine these plans and to ensure a revised corporate asset management plan is in place when the current plan expires in 2018.

Workforce planning has been slow to progress but a foundation is now in place

103. In 2008, the council had a strategy in place for workforce planning and management but this was not implemented and the council has made limited progress since then. In 2010, the appointed auditors highlighted workforce planning arrangements as a key factor in the council's ability to respond to the tightening financial climate. In 2011/12, the council undertook a range of savings initiatives which included a management restructuring and a reduction in 81 staff posts but without a workforce plan in place. This means that the changes were made without a clear assessment of how the changes would impact on its ability to manage and deliver services.

104. In 2014, the council agreed a Human Resource Strategy 2014-18. This outlines the priorities for workforce planning but does not consider workforce needs, financial constraints and skills. The 2015/16 Annual Audit Report highlighted that progress against this strategy had not been reported to councillors. Since then, a progress update was provided to the council's Human Resources Sub-Committee in June 2016.

105. In June 2016, the Policy and Resources Committee noted that the need to reduce workforce costs was critical to making anticipated budget reductions. In the autumn and winter of 2016/17, service level workforce plans and an organisation-wide plan were produced and agreed by the relevant committees. These recent workforce plans are basic but provide a starting point for the council to develop richer workforce planning. This ought to include detailed information on skills requirements, capacity-building, training and development, succession planning and long-term forecasting, to support the change programme.

106. The Accounts Commission's *Local government in Scotland - performance and challenges 2017* report highlighted the need to plan and manage reductions to council workforces. Failing to do this can affect the skills mix and ability of the organisation to deliver services effectively. This is

In December 2016 the council had a total of 2,044 staff, including 311 teachers. The council also employs around 270 relief workers.

Source: Orkney Islands Council

particularly important for Orkney Islands Council, which has specific contextual issues to consider, including:

- An ageing population and workforce profile, which creates a growing demand for some services and an increasing challenge to recruit and retain staff to meet this need. Approximately 45 per cent of the council's staff (627) are over 50 years of age. Over the past five years the number of FTE staff aged 60-64 has increased from 78.3 to 128.7, those aged 65 to 69 has increased from 8.5 to 30.7, and those aged 70 and over has increased from 2.1 to 6.

- The council's small scale (1,523 FTE staff in March 2017) has inherent staffing challenges. Losses of a few staff can have an amplified effect on the capacity of teams and the skills range, particularly when individual officers have sole lead and knowledge of an area of work.

- The impact on the community as the largest employer on the Islands.

Sickness absence rates have increased

107. Sickness absence rates have compared favourably to national rates in recent years. However, in 2015/16, the average number of days lost rose from 6.5 to 8.1 days for teachers (national average of 6.1 days), and from 8.8 to 9.3 days for other employees (national average of 10.6 days).

108. The council has improved its arrangements for managing sickness absence. A new policy was agreed in July 2016 and the council actively monitors this with regular reporting to committees.

Information technology has been a long-term challenge for the council but recent changes have resulted in progress.

109. Information technology (IT) has been a long-term challenge for the council. Its wider digital strategy for delivering digital services to its communities, such as customer booking or requests through its website, has also been slow to progress. The main issues for the council since our 2008 Best Value report have included staff and skills shortages and an under-investment in infrastructure in the last seven years.

110. Responsibility for IT transferred in 2016 from the chief executive office to the executive director of corporate services. The executive director of corporate services extended the job designation and remit of the head of facilities to include IT which increased management capacity.

111. The increase in management capacity has resulted in delivering positive changes, including monitoring and reporting on performance of the service, and completion of the IT Strategy and the Digital Strategy. The service team structure is now being reviewed (including consideration of new more flexible ways of working) to support delivery of the IT Strategy and the Digital Strategy.

112. The IT service manager has reviewed the infrastructure and has identified a proposed IT Capital Replacement Programme allocation for financial years 2017/18 and 2018/19 including replacement servers and networks. This work started on 1 April 2017, building on the preceding capital replacements programmes.

The council has improved arrangements to ensure it complies with the Code of Guidance for funding external bodies

113. Local authorities have a statutory responsibility to comply with the Accounts Commission/COSLA Code of Guidance on funding external bodies and following the public pound (FtPP).

27per cent of teachers and 31per cent of other staff are aged between 45 and 54 years.

Source: Orkney Islands Council

114. Council financial regulations contain a section on FtPP. These emphasise that services must follow the council's guidance for allocating funds to external organisations. The guidance applies where funding is provided, or transferred, to arm's length bodies such as a company, trust or voluntary organisation.

115. In 2008, we reported that accountability arrangements for arm's length bodies funded by the council needed strengthening. The council has demonstrated improvement since the last Best Value report. The principles of the Code of Practice on Following the Public Pound are generally being followed and some areas of good practice are evident. Board members now regularly receive service and financial performance reports and training is provided to ensure members fully understand their role in relation to arm's length organisations.

116. The following companies are regarded as arm's length organisations through their association with the council:

   - Orkney Towage Company Limited and Orkney Ferries Limited - the council holds 100 per cent of the shares in these two companies, which are managed by the executive director development & infrastructure. Responsibility for towage operations transferred to the council in 2016 to improve accountability as well as safety management of towage operations. Towage performance is monitored through development and infrastructure service specific performance indicators.

   - The Pickaquoy Centre Trust is a charitable trust formed in 1999 to provide leisure facilities within Orkney Islands Council's area to the general public. An internal audit review performed in 2015/16 found that some aspects of good practice were evident but improvements could be made, both with regard to the service agreement and to the operating arrangements between the council and the trust.

117. The improved arrangements will be further explored and reported on during the remaining period of our audit appointment.

Part 4
Is the council working well with its partners?

The council works well with its partners and communities. There is still more to be done, however, to harness the potential of the Community Planning Partnership

The council has a long standing culture for working closely with local partners.

The integrated arrangements for heath and care, through the Integration Joint Board (IJB), have been established effectively and it is functioning well.

Revised arrangements for the Orkney Community Planning Partnership are not yet demonstrating their potential for improving outcomes for the community.

The council has maintained a steady pace in developing its engagement and more recently its empowerment arrangements. There are examples of good community engagement and empowerment.

The council works effectively with the other Islands councils on issues they have in common.

The council has a long standing culture of working closely with local partners

118. The council has a history of working effectively with local partners, including: other public sector organisations, the third sector, private sector and with the local community. The council works closely with others at both a strategic level and at the frontline of service delivery.

119. The OCPP is not yet fulfilling its potential as the driving force for improving outcomes for Orkney. We explore this further in paragraphs 136 to 140 page 36 and outline progress since the Accounts Commission published a report about OCPP in 2014. However, the council works well with partners on common priorities. For example, the council works closely with Highlands and Islands Enterprise Orkney (HIEO) on promoting economic prosperity.

120. The council has a history of working effectively with the local enterprise body. Partnership working is helped by the co-location of the council's Business Gateway staff with HIEO, in an office near council headquarters. The two bodies have worked closely on projects ranging from major oil and shipping programmes such as Flotta oil terminal, ship-to-ship transfer in Scapa Flow, to promoting 'Orkney the Brand' for products and produce made in Orkney. HIEO has increasingly worked with the council on issues such as Orkney's internal ferry and transportation services, tourism, housing and the

energy and renewables sector. Case study 1 outlines an example of the joint work to develop the energy and renewables sector in Orkney.

Case study 1
Orkney Research and Innovation Campus

Orkney Island Council and Highlands and Islands Enterprise have entered into a partnership agreement to establish a research and innovation campus in Stromness. Funding for the campus has been agreed: HIE up to £5.15 million, OIC £1.5 million, and the Scottish Government and COSLA have awarded £0.5 million, from the Regeneration Capital Grant Fund. The council is transferring ownership of old Stromness Academy and Primary School to the project. The schools will be refurbished to form part of the campus. The work is planned to begin in 2017/18. The vision for the 3.75 acre campus is to:

- support the growth of existing research and innovation activity

- support the expansion of companies in Orkney's marine renewables, energy and low carbon sector

- attract academic institutions and businesses with an interest in carrying out a wide range of research projects in an island setting including energy resources, transport needs, culture and economy.

In addition to the economic benefits for the Islands, the aim is that by growing existing businesses and with the creation of new enterprises this will provide more opportunities to attract and retain young people looking to live, work and study in the islands.

Source: Orkney Islands Council, Audit Scotland

121. The council and partners recognise the need to identify opportunities to save public money and improve services through shared arrangements. In addition to the co-location with HIEO, the council also shares accommodation with Police Scotland in Stromness. The Warehouse Building opened in May 2015. It includes council customer services, registrar services, library services, and provides office space for police and council staff, and a shared public counter service.

122. In the spring of 2017, the OCPP established a Property Asset Management and Use short-life working group. The group is reviewing how public-owned properties can be used more effectively. This includes shared use, joint service arrangements and ensuring arrangements are in place so that one partner does not sell a building that could be of use to another, or build premises without considering the opportunities for joint approaches with partners.

123. The council continues to recognise the value of working closely with the third sector, for example with Voluntary Action Orkney (VAO), an umbrella organisation for many of the third sector bodies in Orkney. The council commissions services from VAO for volunteer management and for a counselling centre. In 2016/17, the council approved maintaining a one per cent increase in annual grants to the third sector. The council and the wider OCPP support the third sector to build and maintain local initiatives that contribute to community wellbeing, such as activities for older people.

124. The council and the OCPP also use the different knowledge and skills available through the third sector to assist engagement with specific service user groups and communities. An example of the partnership's approach to community engagement and empowerment led by VAO is illustrated in paragraph 150, page 39.

125. The council has a constructive and positive working relationship with NHS Orkney. It has started discussions with NHS Orkney about revisiting opportunities for shared service arrangements. The IJB is currently the only

example of a shared service. Our audit work in the coming years will monitor how these discussions progress and any actions to share services.

The Integration Joint Board has been established effectively and is functioning well

126. The NHS Scotland 2020 vision emphasises enabling people to stay in their homes, or another homely setting, where possible. Bringing together NHS and local council care services in a partnership arrangement for each area is intended to contribute to this aim. Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on April 1, 2016. On the same date the Orkney Integration Joint Board (IJB) became operational.

127. The IJB has adopted a wider scope of services than required by the legislation. Its remit includes all social work and social care services for adults (including older people), for children and families, and for the criminal justice system. It is responsible for planning, commissioning and overseeing service delivery performance for the services delegated to it.

128. Since 2011, the council and the NHS board have worked effectively in a co-operative arrangement, through Orkney Health and Care Partnership. This meant that the IJB had a solid base from which to develop with well established arrangements in place before the requirements to set up the IJBs. Nevertheless, changing the governance arrangements took a significant amount of time and effort to address and get in place. It is now clear that the IJB is functioning well.

129. Regular discussion forums are held between the chair and vice chair of the IJB, the leader of Orkney Island Council, the chair of NHS Orkney, the two chief executives and senior officials, including the chief officer of the IJB.

130. The Integration Joint Board demonstrates its commitment to delivering best value through a number of initiatives and agreed plans. An example is the plans and agreed budget in place for the Relocation of the West Mainland Day Centre from Stenness to the Smiddybrae Care Home in Dounby. Once complete the relocation of the centre will enable maintenance of existing levels of quality day centre provision, but relocated within a residential care home in order to benefit from economies of scale and sharing of resources and knowledge.

131. Overall the process of integration has gone smoothly, with no significant issues identified in the governance of the IJB.

IJB financial management arrangements are in place but are proving challenging

132. Spending was in line with the budget in 2016/17. This was achieved by reaching mutual agreement with the partner bodies to provide additional resources during the year.

133. The IJB's financial plans detail reductions of 2.5 per cent in the budgets for 2017/18 and 2018/19. The IJB is already finding it challenging to manage spending in line with the budget for 2017/18 and there are no arrangements in place for developing medium to longer term financial plans.

134. It is important that the IJB develops robust plans to assist in addressing upcoming and future budget challenges. This is particularly important as it seems unlikely that further non-recurrent funds will be made available by partners to fund any further pressures.

Revised arrangements for the OCPP are yet to demonstrate the partnership is delivering its shared priorities

135. The OCPP arrangements and the engagement of partners have improved but it has been slow to make progress since it restructured in 2015.

136. In 2014, the Accounts Commission published a report on the OCPP. In its findings, the Accounts Commission expressed concern about tensions between the council and NHS Orkney impacting on progress. Relationships have improved. Since the report the council and NHS have worked effectively together to establish the Integration Joint Board and on a range of other activities.

137. Our 2014 report also identified a number of areas for improvement. These included the need for the partnership to review and amend its structure, and to provide an effective framework for all partners to contribute to delivering the OCPP priorities. It also highlighted the need for all partners to take collective ownership of developing the OCPP's priorities. The Community Empowerment (Scotland) Act 2015 shifted the lead responsibility for community planning from the council to include other lead organisations, such as the NHS. It also put a duty on other public sector bodies to participate in community planning.

138. The partnership responded to the findings of the Account Commission's report. In our September 2015 Annual Audit Report we reported that good progress was made in addressing the Community Planning Partnership improvement agenda and highlighted that it was important that this continues. In 2015, the partnership streamlined its delivery groups from 18 to three to focus on three priorities it had identified in 2013/14. The thematic priorities are:

- Vibrant economic environment, led by Highlands and Islands Enterprise.

- Healthy and sustainable communities, led by NHS Orkney.

- Positive ageing, led by Voluntary Action Orkney.

139. The partnership has a firm evidence base for the current priorities and recognises the immediate challenges facing Orkney. It selected these as the issues most needing preventative action to limit future demand on services and that no partner could resolve on its own. The priorities are set out in the partnership's community plan, its Local Outcome Improvement Plan and supporting plans. However, the community plan is general in its aspirations and it is unclear how achieving the priorities will directly benefit island communities.

140. Progress with establishing the arrangements in the three thematic groups has been slow. Key indicators have now been agreed but the pace of developing the indicators has been slow and the supporting performance measurement arrangements are confused. The partners reported to the audit team that the shift to distributed leadership, shifts in roles and developing ownership has taken time. The pace of progress has also been impacted by the time and effort required to progress the establishment of the IJB. In 2016, a community planning business manager was appointed as a shared resource for the partners to support improved progress.

The council has not developed shared services but works effectively with the other island councils

141. The council does not have any shared service arrangements with other councils. It is open to learning and engagement with other councils and in particular meets regularly with councils in the north of Scotland through a range of forums to focus on common issues. For example, discussions with

the Northern Alliance, which has a focus on education and community learning and development, have contributed to options included in the change programme on 'Orkney's Learning Landscape'.

142. Over the past five years, the council has worked closely and effectively with the other island councils on the Our Islands - Our Future campaign. This is an innovative and strong example of community leadership and partnership working. Case study 2 outlines Our Islands - Our Future.

Case study 2
Our Islands - Our Future

Since June 2013, Orkney Islands Council, Shetland Islands Council and the Comhairle nan Eilean Siar have worked closely to raise the profile of the islands through the 'Our Islands - Our Future' (OIOF) campaign. The main objectives of the campaign are to get the UK and Scottish governments to recognise the specific issues and opportunities for the islands and to secure changes that will help the councils to do more for the economic and social sustainability of their respective communities. The core themes evident throughout the OIOF work are:

- Connectivity – transport, digital and energy transmission

- Local democracy and self-determination

- Fairness and social justice.

There has been a positive response to the campaign from both the UK and Scottish governments:

- In 2014, the UK government set out 'A Framework for the Islands' in a statement. This sets out commitments to working with the island councils. A dedicated Islands Desk was set up in the UK Government Scotland Office

- In 2014, the Scottish Government included 'islands' as part of the ministerial portfolio of the Minister for Transport and Islands

- The Islands Bill was presented to the Scottish Parliament in June 2017. The Bill recognises the distinct context and challenges of the island communities and the need for specific provision for the islands to be considered in legislation. Measures in the Bill include:

    o a requirement to 'island-proof' future legislation and policies

    o the creation of a National Islands Plan

    o greater flexibility around councillor representation within island communities

    o extended powers to island councils for marine licensing

- In August 2017, the Scottish Government announced changes to the funding arrangements for ferries to Orkney and Shetland Islands from the Scottish mainland to mirror arrangements on the west coast.

In 2016/17, the three councils agreed a set of principles to develop into proposals to take to the UK and Scottish governments for an 'Islands Deal'. The main themes of the proposal are:

- 'Enhancing our local democracy – our ambition is empowerment to create modern and confident island councils, with the flexibility to generate solutions that fit our islands' specific needs'.

- 'Achieving our economic potential – our ambition is to secure business and investment growth through political commitment to implement strategically significant programmes of development projects in each island area, with a 10-year horizon to achieve our population and employment targets and a 20-year horizon to embed sustainability'.

Source: Orkney Islands Council, Audit Scotland

There are examples of good community engagement and progress with community empowerment, but more now needs to be done to offer good practice consistently

143. The council has maintained a steady pace in developing its engagement and more recently its empowerment arrangements. It recognises the value of community engagement and empowerment and continues to work well with community groups, particularly the community councils. The Community Empowerment (Scotland) Act 2015 places new responsibilities on public bodies in how they interact with communities. This act aims to give communities greater influence or control over things that matter to them.

144. The council has a recognised history of working closely and effectively with the network of very active community councils across Orkney. Councillors meet regularly with the community councils, and council officers in the democratic services team provide a consistent contact point. The council consults and involves the community councils on a wide range of issues, from local service needs and priorities to funding for local initiatives. The success of the arrangement means that there is a risk of overburdening the community councillors with multiple and detailed consultations and, as a result, diminish the quality of response. The council should consider how it can ensure that it minimises the burden but maximises the value of consultation with the community councils.

145. The council continues to use and develop a wide range of other methods at a service and corporate level to consult and involve the community. This includes, for example, on-line requests for comment about strategies and plans, local presentation and discussion sessions, surveys and workshops. Although the council has a broad communications strategy and consultation guidance, its coordination and organisation-wide planning for consultation has been limited. The council needs to ensure consultation and engagement is well planned and managed to ensure the most value is gained with minimum resources and demands on the public. Over the past year, the council has made improvements to its arrangements including, the launch of a new community panel, Orkney Opinions. The improved arrangements have the potential to assist better coordination of consultation and reduce the risk of members of the public feeling they are consulted too often.

146. The council uses its relationships with third sector and community groups to understand local issues and priorities for more vulnerable groups. However, there is little evidence that the council actively considers how it consults and involves 'hard to reach' groups such as workless households, lone parent households, homeless people, and people experiencing other forms of disadvantage or inequality. Living remotely adds a further layer onto any existing inequality. Individuals in need are often dispersed and not readily identified, meaning engagement is more complex and costly. This needs to be considered in the design of engagement approaches.

147. In response to the Community Empowerment (Scotland) Act 2015, the council has put in place policy arrangements relating to community asset transfer processes, and participation requests. These, respectively, are arrangements to assist community groups to take ownership of public buildings or other assets and, to request direct involvement in decision-making on local issues.

148. With good working relationships in place with community councils, the council is well placed to develop community empowerment arrangements: for many years, the community councils have been responsible for managing caretaking of local burial grounds and for administering local grants. Such well established arrangements will enable communities to take more direct ownership of services at a local level.

149. In 2015, the council launched a pilot exercise at two test sites for an enhanced council officer role based in outer island communities. Case study 3 outlines the project. The approach has been very well received by the two island communities and has a clear day-to-day benefit. The council has plans to roll out this successful initiative to other islands. If the council implements this project across its remote communities, it will improve the council's ability to respond to and empower these communities more efficiently and effectively.

Case study 3
Island Link Officer

Under its Empowering Communities project, the council funds two pilot 'Island Link Officers' on the islands of Papa Westray and Stronsay and has established a 'community office' on each island. The offices provide a base for the link officers, who offer some of the services provided by the council's main customer services team in Kirkwall. The community offices also provide working facilities for council officers visiting the islands.

The project's objective is to provide a closer link to the council within remote communities. This allows communities to have more influence on policies, decisions and services that affect their community and also enables services to be more efficient and responsive to local issues and needs. Community representatives from both islands indicated to our audit team that the scheme benefits the communities, and helps communication with the council and better joint working.

The pilot arrangements have developed differently. Both show early signs of positive results in empowering and supporting communities to deliver services locally.

- In Stronsay, the project secured funding to refurbish the Fish Mart into a hostel, café and community office which includes delivery of customer services. The community council manages maintenance of the public toilets within the Fish Mart, local core paths and a bird watching hide. The community council has worked with the islands development trust board to jointly fund a marketing approach for the island as a tourist destination.

- In Papa Westray, the link officer has introduced a monthly newsletter and helped the community council to progress a number of projects with the council. These include refurbishment of a redundant storage facility to create a heritage centre, resurfacing of a car park, using a council van to provide community transport as well as council services. The community council manage maintenance of the core paths and stiles. The community council are working with the island Community Development Trust board to progress a community asset transfer from the council as a community facility.

The council aims to progress this approach by engaging with communities to explore what, and how, operational services can be delivered in a different way within communities. The aim is to:

- increase employment opportunities in island communities
- help develop new skills in the island-based workforce
- increase sustainability and improve access to services by building capacity in the community to manage and deliver local services
- enable locally based community groups to work together to maximise the potential benefits to island residents
- create efficiencies in terms of public resource and/or cost.

In February 2017, the council allocated additional funding of £110k to continue its Empowering Communities project in Papa Westray and Stronsay, and to roll out the project to two further islands, Hoy and Sanday.

Source: Orkney Islands Council, Audit Scotland

150. In 2016, the OCPP carried out a pilot participatory budgeting exercise in conjunction with a project to develop its locality plans. The approach was led by VAO. The exercise included a survey and workshop sessions with island communities to decide how they wanted to spend £36k of funds from the Scottish Government's Community Choices Fund and from community

planning partners. The partners and the council view this exercise as a success and it received positive feedback from communities. The council and its partners now need to consider how they can collectively and individually build on the success of this pilot exercise.

151. The council demonstrates a good level of commitment and effective approaches to consultation, engagement, and delivery of services with the community, and with partners, in terms of community participation. It now needs to do more to ensure effective coordination of consultation and consistency in the standard of support offered to communities.

Part 5
Is the council demonstrating continuous improvement?

The council has shown gradual improvement since 2008, with a notable increase in the pace and focus in improvement activity since 2014

The council has shown gradual improvement across the characteristics of Best Value since 2008 and maintained strengths in areas such as leadership and community engagement. It now needs to ensure it maintains the increased pace by focusing on its change programme and continuing to improve essential processes such as workforce, capital and asset planning.

The council's change programme has refocused its resources on to more challenging and cross-cutting efficiency and improvement work and the pace has increased. The council actively manages the pace of improvement work to reflect its capacity, context and financial position. It needs to ensure that it still demonstrates Best Value with this approach to change.

Self-evaluation has been slow to develop but is now an integrated part of service level planning. It could be used more effectively at a corporate level.

The council has shown gradual improvement

152. Since our Best Value report in 2008, a number of activities have contributed to a gradual improvement in the way the council operates. 'Tough Times – Tough Choices', an initiative in 2010/11, resulted in a management restructure and service and efficiency reviews. There have been developments in how the council approaches: review and options appraisals; strategic and service level planning; self-evaluation; risk management; performance management; business continuity management, and public performance reporting. This has been supported by performance and risk management software, which went live within the council in September 2013.

153. Our 2008 Best Value report noted that the council's *'small scale makes it difficult to build the capacity to make the transformational change needed to fully embed best value processes and modernise services'*. Capacity remains a challenge. The senior management team articulates a need to work at a pace that suits the council's small scale and capacity; to plan thoroughly and get changes right. This measured approach to change is influenced by the relatively strong financial position of the council and therefore less immediate pressure to make significant changes to services. It is also motivated by the council's awareness of the integral role that it has in

its community and the sustainability of its community. It is important that within this approach to change that the council retains a clear focus on its duty to demonstrate Best Value and ensure it uses every public pound efficiently and effectively.

154. The council is investing more resources into its improvement activity. In 2014, it established a change programme team of three members of staff. The team has gradually increased to comprise a programme manager, four project officers and a programme administrator. The council also seeks external expertise to support improvement activity where it needs additional capacity and knowledge. For example, the Improvement Service assisted the council with some of the review activity to develop plans for the council's change programme.

The council's change programme has refocused on to more challenging and cross-cutting improvement work, and the pace of change has increased

155. In 2014, the council refocused its approach to improvement work. The council's change programme, outlined at Exhibit 11, supersedes other review activity. The approach is more challenging and cross-cutting in scope than the former review programme and there is an increase in the pace. However, it is too early to assess how well the programme will deliver effective approaches and the required efficiencies as the council is at an early stage of developing and implementing the different projects within the programme.

Exhibit 11
Orkney Islands Council change programme

The council established its Change Programme in January 2014. The programme is intended to take a '*more radical and holistic approach to ensuring financial sustainability*'. The approach is to review and modernise key business processes and to review options for delivering both frontline services and back-office support services more efficiently.

The change programme began by reviewing past improvement programmes and consulting with all services to identify potential savings options. From the collated ideas, business cases for 21 change projects were approved. These ranged from changes to recycling and car parking charges to improving internal business processes, such as reduced out-of-Orkney travel and finance and HR systems.

In April 2016, following a series of workshops involving councillors and senior managers, six cross-service change reviews were approved for phase 1 of the service review programme. The council considered options appraisals for all proposed projects and these were scrutinised by senior management and councillors. Initial savings targets were identified for each, with an aim to deliver cost reductions and yet retain an acceptable standard of service. Phase 1 reviews focus on internal corporate processes:

- Property Asset Management.
  - The council's aim is to save £678k by 2019/20.
  - In August 2016, the council completed a review of properties it could dispose of and identified an initial 53 properties to consider further. The council is now liaising with community planning partners on potential options and with community groups about whether there are opportunities to transfer any properties into community ownership.
- Procurement.
  - The council's aim is to save £256k by 2019/20.
  - The council published a new procurement strategy in December 2016. Ensuring more consistent corporate-wide approaches to procurement has been an initial focus of the work. The council has also held a number of engagement events with suppliers to encourage local suppliers to bid for contracts.
- Staff and workforce planning.

- – The council's aim is to save £310k by 2019/20.

- – Initial work included collating a range of detailed information to establish a good base of data for initial workforce plans. The council has also developed proposals for changes to terms and conditions, including changes to overtime, public holidays and core working hours. At the time of our audit the council was consulting with trade unions on its proposals.

- Fees and charges.

  - – The council's aim is to raise a further £210k by 2019/20, with scope to consider further options beyond that date.

  - – A corporate charging working group was formed several years ago, with a primary role to review all new charging options and/or any significant increase to existing charges. Better integration of the workings and outputs from the group is now a feature of the medium term budget process and will continue to contribute to budget planning for 2018 with a specific focus on fees and charges. Options include introducing new charges and increasing existing fees and charges.

- Outsourcing and partnerships.

  - – The council's aim is to save £555k by 2019/20.

  - – The review activity has been assisted by the Improvement Service, which has looked at options and barriers for different approaches to delivering services including, shared services, out-sourcing, trusts, and other third sector and community options. Detailed work on initial options is progressing.

- Modernising IT.

  - – The council's aim is to save £532k by 2021/22.

  - – Initial work on this review has included identifying the systems and applications used across the council and, analysing their use and costs. Savings to date have been made by reducing the number of administrative staff required. Options for modernising IT are to be presented to the council's Policy and Resources Committee in November 2017. Sub-projects within this review programme include improving, for example, the council's website, the customer relations management system, the internal IT help-desk arrangements, human resources systems, and reviewing options for using 'cloud' based services for working.

As the review, planning and implementation of these projects progress, phase 2 of the programme has begun and focuses on front-line service delivery. The work for the 'Orkney Learning Landscape' change review began in November 2016. The savings target for this review is £1.4 million. The review includes looking at potential options for managing the sustainability of schooling in small communities, the potential use of digital approaches to increase options for how to deliver schooling, partnership and commissioning options.

In April 2016, the council revised its review framework and renamed it the Change Review Framework. This sets out the governance, programme and project management requirements for the change review work. A change board oversees the work. In 2017, the board membership was increased from the SMT, two heads of service and eight councillors to include all 21 councillors. This is to ensure all councillors have a full understanding and opportunity to discuss the issues, as the programme progresses, and they need to make challenging decisions about spending and services. The change programme is directly linked to the council's medium term resource strategy, described on page 27.

Source: Orkney Islands Council, Audit Scotland

Self-evaluation has been slow to develop but is now an integrated part of service level planning. It could be used more effectively at a corporate level.

156. The council uses self-evaluation across all services as part of the service planning cycle. This has taken a long time to develop as a systematic approach to improvement. In April 2009, the council adopted the 'How Good is Our Council?' model. In March 2010, a project team was established and an initial exercise at departmental level took place. No further progress was made until 2012. The council indicates that the hiatus was due to the management and organisational restructuring that resulted from the 'Tough Times, Tough Choices' review. In April 2012, the management team agreed to reinstate the How Good is Our Council approach and self-evaluations were undertaken at a service level. The assessments were used to inform the council's 2013-16 service plans. Services completed further self-evaluations in 2015/16 and actions are evident in service plans. Some

services use additional approaches to self-evaluation against recognised national standards, including housing and education services. Orkney Health and Care has its own self-assessment arrangements in place, and has not participated in the How Good is Our Council approach.

157. The council's management team and councillors demonstrate a good level of self-awareness about the strengths and areas for improvement in the council. However, self-evaluation is less systematic at a corporate level than at a service level. In 2010, the management team assessed the organisation against the Audit Scotland Best Value toolkits and included resulting actions in its corporate plans. It has not adopted a regular arrangement but undertook a similar exercise in 2016. The council should consider how corporate level self-evaluation can be integrated into its planning cycle to help it to continue to improve.

158. The council carried out a staff survey in 2013. The council identified three areas for improvement from the results and established working groups to identify actions to address these. Examples of the resulting actions are as follows:

- Employment related policies, procedures and processes.

    – A secondment policy was introduced to provide a framework for career development.

    – A new disciplinary policy was introduced to provide clarity on how complaints against staff are handled.

    – A new policy for managing sickness absence was developed to address inconsistencies in recording and managing employee sickness.

- Treating each other with dignity and respect.

    – Introduced a revised Dignity at Work policy and training sessions.

    – Awareness sessions with managers to highlight the importance of tackling unwanted behaviours in the workplace and the role of leadership.

- Communication and engagement with staff.

    – Introduced an ideas scheme (through the Change Programme) to encourage staff to share ideas for better ways of working, with a focus on delivering services more efficiently and effectively.

    – Communication and engagement are included in leadership development.

159. The council has not yet carried out a further staff survey and so is unable to quantify the effectiveness of these actions. The council plans a second survey in the coming year.

160. An example of improvement activity that has resulted from the ideas scheme, referenced in paragraph 158 above, is a project to reduce the cost of travel outside the islands. The Outwith Orkney Travel scheme (OOT) has involved analysing spending on travel and expenses by staff to meetings and events outside Orkney. A new travel policy was approved in September 2016. A phased implementation began in November 2016 to allow the council to review and refine the arrangements. The changes involve:

- introducing criteria for external flights to be acceptable

- investing in video conferencing facilities to reduce the need for travel

- using a common provider to book flights and other forms of travel and accommodation, and a uniform booking process across all of the council's services

- booking flights well in advance to reduce the cost where possible

161. A total saving of £51.4k was made on flights in 2016/17 compared to a total spend of £276.4k on flights in 2015/16. The savings target for the scheme, including other travel expenses, is £230k from 2017/18 to 2019/20.

The council has maintained its strengths and made gradual improvements in other aspects of Best Value

162. It is too early to assess the impact of the council's current change programme. However, it is evident that across the characteristics of Best Value that we have reviewed in this report, the council has maintained its strengths in some areas and gradually improved in others. Exhibit 12 highlights some of the Controller of Audit's judgements in our 2008 report and compares these with those in this report, nearly ten years later.

Exhibit 12
Best Value judgements, 2008 and 2017
A comparison of the Controller of Audit's judgements between 2008 and 2017 shows the extent of progress made by Orkney Islands Council.

2008 judgements	2017 judgements
STRATEGIC DIRECTION	
Elected members and the Corporate Management Team have a clear commitment to the area but have not effectively fostered a culture focused on Best Value. Elected members and senior officers are prominent in the community and the council's role in providing community leadership is strong. The convener and chief executive provide effective leadership for the council and have a constructive working relationship. Elected members and the CMT are committed to providing good quality, responsive services for local people. The corporate management team works well together. The team needs to focus more on the quality and cost-effectiveness of services, and on monitoring the impact of activity to deliver strategic priorities.	The council understands the challenges and opportunities for Orkney and has clear priorities that reinforce its ambition for the islands. The council has significantly improved corporate planning and performance management arrangements to help achieve these. Strategic leadership of the council remains stable and effective. A good level of mutual respect and trust exists between officers and councillors. The management team works well together but the small scale means that management capacity is an ongoing challenge.
GOVERNANCE	
Corporate performance management arrangements are weak and this limits the effectiveness of scrutiny and public performance reporting. The community and corporate plans need to be supported by clear action plans with specific, measurable targets and milestone dates. This will	The council's governance arrangements provide an appropriate and effective framework for decision making and scrutiny. The council has significantly improved its corporate planning and performance management systems since 2008. This helps the council manage work towards its priorities more effectively. However, the

assist the council in allocating resources to priorities and will improve transparency and accountability. Members currently engage well in scrutinising policy decisions and in challenging alternative proposals. This process would be strengthened by better information on the costs and benefits of alternatives.	council is not measuring and monitoring how successfully its work is improving outcomes for the community. There is a good level of awareness and commitment to equalities. Induction training for councillors is good but on-going training would benefit from more structured arrangements. Reporting performance to the public has improved.
MANAGING RESOURCES	
Strategic resource management is underdeveloped. It is establishing a more strategic approach to financial management but this is not linked effectively with asset management and service planning. Strategic communications technology (ICT) requires further development and needs to be linked to a vision for service modernisation and workforce planning to underpin the development of more flexible and user-focused services.	The council has been slow to develop medium and long term financial planning, workforce planning, asset management planning and its digital and IT arrangements. It has made better progress over the past three years and it needs to continue this pace of improvement to ensure that it makes the best use of public money. Financial management arrangements are effective, and there is now a medium-term financial strategy in place. The council has a high level of financial reserves that it has relied on to meet financial pressures and avoid cuts to services.
PERFORMANCE AND OUTCOMES	
The council can demonstrate good performance in a number of key service areas, including education and social work.	The council's services are working hard towards its priorities for the community and citizen satisfaction levels are high but the council still needs to drive improvement in service performance. Improvement in service performance has tended to be slower in Orkney Islands Council than comparable councils.
PARTNERSHIP WORKING	
The council provides good leadership to the Community Planning Partnership and works effectively with a variety of partners. It works well with partners in identifying strategic priorities. However, the council and its partners lack clarity about the actions and activities which will contribute to the achievement of strategic goals.	The council has a long standing culture for working closely with its local partners. The Integration Joint Board has been established effectively and is functioning well. Revised arrangements for the Orkney Community Planning Partnership are not yet demonstrating their potential for improving outcomes for the community. The council works effectively with the other Islands councils on issues they have in common.
COMMUNITY ENGAGMENT AND EMPOWERMENT	
The council is strongly focused on the survival of its fragile communities and engages well with local community groups.	The council has maintained a steady pace in developing its engagement and more recently its empowerment arrangements. There are examples of good community engagement and empowerment.
IMPROVEMENT	
The council has a range of improvement activities in place, including best value reviews, responses to audit and inspection results, and reacting to trends in Statutory Performance Indicators (SPIs). However, improvement activity is not coordinated effectively.	The council has shown gradual improvement across the characteristics of Best Value since 2008 and maintained strengths in areas such as leadership and community engagement. It now needs to ensure it maintains the increased pace of change (since 2014) by focusing on its change programme and

Its small scale makes it difficult to build the capacity to make the transformational change needed to fully embed best value processes and modernise services.	continuing to improve essential processes such as workforce, capital and asset planning.

Source: Audit Scotland; Accounts Commission Orkney Islands Council Audit of Best Value and Community Planning, 2008.

Recommendations

The council must maintain the current pace of improvement and in particular ensure it makes progress with the following:

- **Developing a detailed workforce plan that considers future workforce needs, current capacity, supply and recruitment, skills and financial constraints.**

- **Managing capital projects effectively to avoid slippage and the negative impact on delivering strategic priorities.**

- **Longer term financial planning to ensure the sustainability, feasibility and practicalities of current spending plans. This should be done with reference, also, to the Strategic Reserve Fund.**

- **Implementation of the IT Strategy and Digital Strategy, including the associated capital programme and completion of the review of capacity.**

To support a culture of improvement, the council should build on the self-evaluation work already in place in services and further develop a corporate approach.

The council should build on its good examples of community engagement and participation to improve consistency of approach across all the communities, including those that are 'hard to reach'.

The council should set out how its activities will contribute to improved outcomes for communities so that it can evidence and monitor the impact.

The council and its community planning partners should ensure clear performance management arrangements are in place to demonstrate that they are making progress towards delivering positive outcomes for the community.

The council should consider how it can enhance its councillor training and development programme and encourage better uptake by councillors of personal development opportunities.
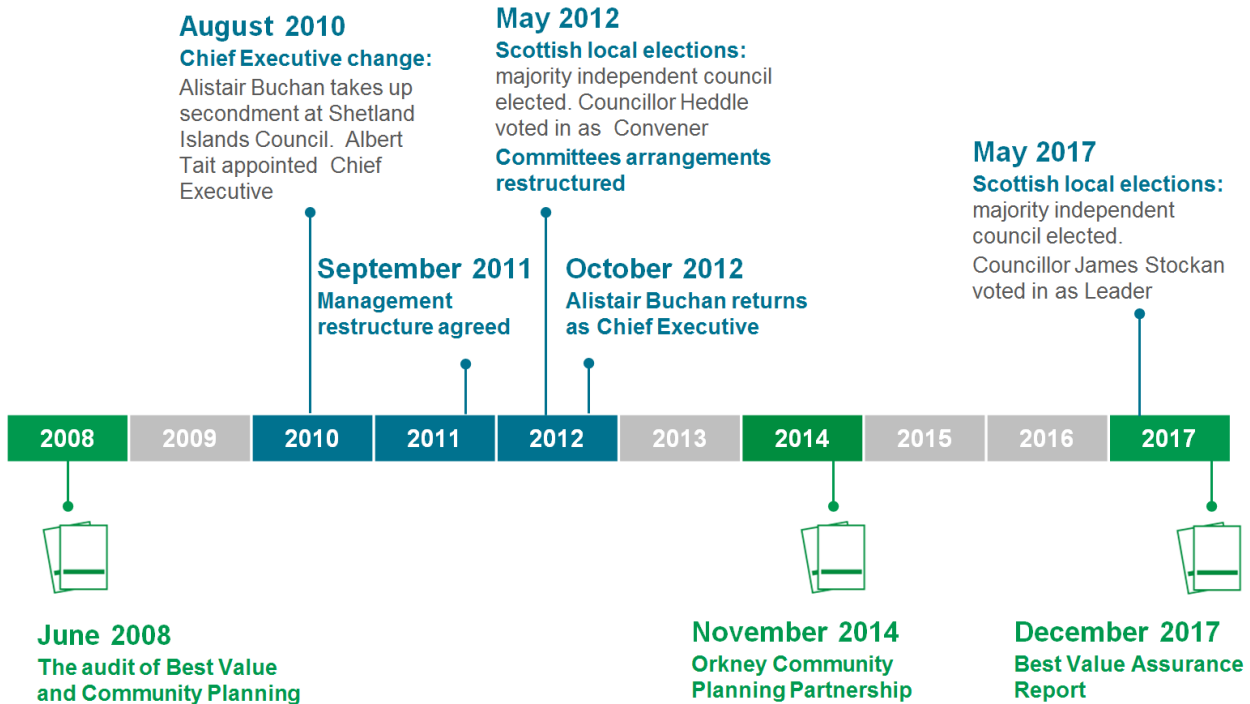
Future audit work

- The audit of Best Value is a continuous process that forms part of the annual audit of every council. Audit conclusions will be reported each year through the Annual Audit Report. As part of our work in 2017/18 we will follow-up the progress the council is making to implement the recommendations we have made in this report.

Appendix 1
Best Value audit timeline

August 2010
Chief Executive change:
Alistair Buchan takes up secondment at Shetland Islands Council. Albert Tait appointed Chief Executive

May 2012
Scottish local elections:
majority independent council elected. Councillor Heddle voted in as Convener
Committees arrangements restructured

May 2017
Scottish local elections:
majority independent council elected. Councillor James Stockan voted in as Leader

September 2011
Management restructure agreed

October 2012
Alistair Buchan returns as Chief Executive

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017

June 2008
The audit of Best Value and Community Planning

November 2014
Orkney Community Planning Partnership

December 2017
Best Value Assurance Report

June 2008 – The audit of Best Value and Community Planning:
The Accounts Commission published its first Best Value report on the council in June 2008. The Commission's 2008 findings acknowledged good leadership and welcomed the council's level of self-awareness, culture of openness, community engagement and financial planning. It highlighted areas of improvement including the need to build capacity, and to develop performance management arrangements and measures.

November 2014 - Community Planning Report:
The Accounts Commission published a report on Community Planning in the Orkney Islands in 2014. The Commission's findings were critical, with more progress needed at a strategic level and expressing concern about tensions between Orkney Islands Council and NHS Orkney impacting on progress.

December 2017 – Best Value Assurance Report:
This Best Value Assurance report is presented by the Controller of Audit to the Accounts Commission. Monitoring of progress against the Commission's findings and the recommendations, as well as further audit work on Best Value will be undertaken as part of on-going annual audit work at the council.

Orkney Islands Council
Best Value Assurance Report

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